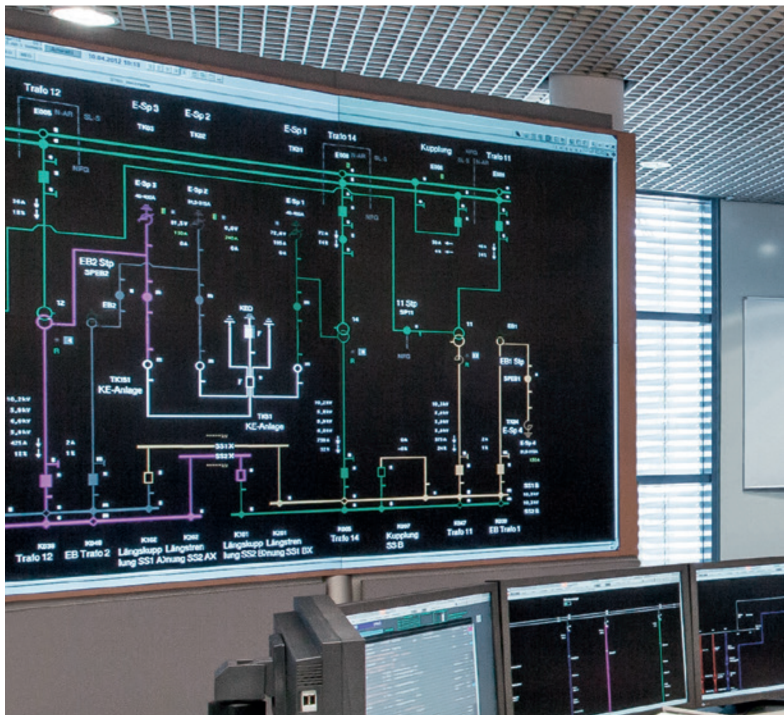
Creating value with technology

ANNUAL REPORT 2016



PSI

Our innovative capacity in figures

16.8

R&D expenses
in EUR million

9.5%

of revenues spent
on R&D

80%

of employees are
university graduates

Participation in

12

ongoing research projects

4

new research projects
approved in 2016

More than

1,300

developers and project
employees in the Group

More than

40

million lines of software code
in the Group

10%

higher investments in
intangible assets and property,
plant and equipment

1

award as a
top innovator

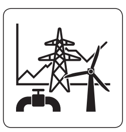
PSI Group in figures

EUR million	2016	2015	%
Revenues	176.9	183.7	– 3.7
Operating result	11.8	11.1	6.3
Earnings before taxes	11.2	9.4	19.1
Group net result	8.6	7.5	14.7
Shareholders’ equity	75.3	73.2	2.9
Equity ratio (in %)	37.8	36.7	3.0
Return on equity (in %)	11.4	10.2	11.8
Investments*	3.2	2.9	10.3
Research & development expenses	16.8	19.5	– 13.8
Research and development ratio (in %)	9.5	10.6	– 10.4
New orders	182	195	– 6.7
Order backlog on 31 December	129	129	0
Number of employees on 31 December	1,619	1,650	– 1.9

* company acquisitions, intangible assets, property, plant and equipment

Our segments

Energy Management



Intelligent solutions for utility companies in the electricity, gas, oil and district heating sectors. The focus here is on reliable and cost-effective solutions for intelligent grid management, gas and pipeline management and energy trading.

	2016	2015
Revenues*	69,215	67,233
Operating result*	5,783	5,265
Employees	564	543

* EUR thousand

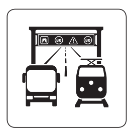
Production Management

Software products and solutions for production planning, production control and logistics. The focus is on optimising the use of resources and cost-effectiveness in the metals industry, machinery/plant engineering, the automotive industry and logistics.

	2016	2015
Revenues*	84,167	86,387
Operating result*	7,104	6,181
Employees	639	667

* EUR thousand

Infrastructure Management



Control system solutions for cost-effective operation of infrastructure in the areas of rail and road transport and public safety. The focus is on operations-control technology and on safety and telematics applications.

	2016	2015
Revenues*	23,472	30,062
Operating result*	133	836
Employees	416	440

* EUR thousand

SOFTWARE FOR UTILITIES AND INDUSTRY

PSI is an independent software producer that has been a technological leader in process control and information systems since 1969. PSI software ensures efficient use of energy, labour and raw materials in energy management (gas grids, electrical grids, sector coupling, energy trading), production management (raw material extraction, metal production, automotive, mechanical engineering, logistics) and infrastructure management (transport and safety).

PSI software products stand for safe, efficient energy supply and optimised production and logistics processes worldwide.

CONTENTS

Creating value with technology

In a world that is changing ever faster as a result of trends such as digitalisation, Industry 4.0 and the Internet of Things, we use innovative products and new functions in our software to help our customers shape the change and create value with new and adapted business models. To this end, we repeatedly demonstrate our capacity for innovation – not just in our products and technologies, but also in our strategy, our processes and our whole corporate culture.

In this annual report, we show you which future technologies we are already preparing today. How our new technology platform enables us to implement new market requirements considerably faster now. And which fundamental innovations and innovative developments we are already offering our customers now. In short, how we create value with technology.

DR. HARALD SCHRIMPF (52)

Chairman
Responsibilities: Marketing, Sales,
Technology and Investor Relations

HARALD FUCHS (52)

Member of the Board of Directors
Responsibilities: Organisation, HR,
Finances and Controlling

DEAR LADIES AND GENTLEMEN,

Thanks to a strong final spurt, EBIT in 2016 was up 6% year-on-year at EUR 11.8 million and was comfortably in the middle of the target range for the year of EUR 11 million to EUR 13 million. At EUR 176.9 million, revenues were down 4% on the previous year's level (EUR 183.7 million), while new orders of EUR 182 million were 7% lower than in the previous year (EUR 195 million).

The new orders do not include a number of large orders for which the negotiations were finalised in 2016 but the official customer order was received only after a time lag in the first few weeks of the new year. Factors driving the decline in revenues include the reduction of weak hardware business, cautious revenue recognition and generally the replacement of individual development services with configurable and updatable software products. By contrast, we increased EBITDA to EUR 16.1 million (previous year: EUR 15.4 million) and EBIT rose to EUR 11.8 million. Net finance costs amounted to EUR –0.6 million (previous year: EUR –1.7 million), resulting in earnings before taxes (EBT) of EUR 11.2 million (previous year: EUR 9.4 million). Group earnings after taxes of EUR 8.6 million exceeded the previous year's figure (EUR 7.5 million) by 15%. Cash flow from operating activities was at a sound level again at EUR 13.3 million (previous year: EUR 14.0 million). Cash flow from investing activities amounted to EUR –2.9 million (previous year: EUR –2.2 million) due to somewhat higher replacement investments. As a result of the dividend payment and loan repayments, particularly at PSI Incontrol, cash flow from financing activities came to EUR –6.7 million (previous year: EUR –2.1 million). Cash and cash equivalents rose to EUR 43.0 million (previous years: EUR 38.8 million; EUR 29.3 million; EUR 21.8 million), thus approaching the level of pension liabilities, which leapt up to EUR 52.0 million on an actuarial basis. In consultation with the Supervisory Board, the Board of Directors will propose a dividend of 22 euro cents (previous year: 21 euro cents) to the Annual General Meeting.

The share initially developed better than in the previous year over the first three quarters, before dipping suddenly in trading in the fourth quarter and ending below the previous year's level (EUR 12.90) at a closing price of EUR 12.20 after a slight recovery. By contrast, operating business picked up momentum in the final quarter after a weak summer and also made a good start to the new year.

UPSTREAM – MIDSTREAM – DOWNSTREAM

PSI software controls and optimises industrial production processes from raw material extraction ("upstream"), through basic material production and energy generation ("midstream") to goods production and distribution ("downstream"). The extremely low level of raw material prices, with an oil price below USD 30/BOE, curbed investment propensity among many of our upstream

Production Management increased its earnings contribution by 15% to EUR 7.1 million. In 2017 we will begin rolling out the new technology and expect further increases in earnings and revenues.

+15%

customers until the autumn. Not until the recovery at the end of the year were some of the orders that had been held back then placed. In line with the long super-cycle, PSI achieved better market positions in upstream business than in the diversified downstream segment. However, we increasingly invested the money earned in upstream business in PSI's downstream areas, specifically in software for the automotive, mechanical engineering and logistics business areas (TSM, ALS, SCM, JIS/JIT, MES, SCADA, IOT) and in the migration of all software products to the state-of-the-art Java platform. Even though it therefore had to get through several pilot projects in 2016, Production Management increased its earnings contribution by 15% to EUR 7.1 million. In 2017 we will begin rolling out the new technology and expect further increases in earnings and revenues. We are also continuously examining acquisition targets in the automotive sector that could open up more market access. Despite the embargo on Russia, Energy Management improved its earnings by 9% to EUR 5.8 million. In 2016 and 2017, we are particularly relying on exports, since these are the "shadow years" in which investments by German grid operators are not recognised suitably promptly by the regulator. As the market leader, we intend to play an active role in any market consolidation. The decline in revenues at Group level was mainly attributable to the Infrastructure segment, which contracted by EUR 6.6 million to EUR 23.5 million. At PSI Incontrol in Southeast Asia, we closed one of three production sites, reduced the number of production employees in the capital-intensive and low-margin substation automation business and hired 20 software engineers, as we intend to continue enhancing our software expertise in Malaysia. Revenues, with a margin of – 10%, decreased by 24% to EUR 14.2 million, while risks and tied-up capital were reduced significantly.

COMPANY TRANSFORMATION, SOFTWARE PLATFORM AND CLOUD PILOTS

In 2016, PSI continued its transformation from a regional contract developer into an international software company focused on software products for controlling and optimising energy and material flows. As at the end of 2016, all major software products in the Production Management segment had been migrated to the interface (client) of the new, uniform Group-wide PSI Java platform PJF. Pilot projects were implemented very successfully and many pragmatic improvements were integrated in the platform. The pilot customers report enthusiastically that they can now adjust business processes themselves at the click of a mouse in CIP (continuous improvement process) meetings, instead of having to initiate IT projects like before. This PSI Click Design technology will be improved further in 2017. In the latest JavaFX-based release, the software products can run either directly on operating systems (PC, WS, Pads, etc.) or alternatively in the web browser.

All Production Management software products are now available from the cloud on a model-oriented basis in EMF and on an object-oriented basis in simultaneously processing Java 8 on PJF. As even with the best cloud hosting providers there are considerable shortcomings with regard to availability and real-time capability, PSI is also working with customers to support private clouds such as OpenStack and hybrid clouds. It is also working on the migration of software products to the JBoss/WildFly-based PJF server developed in 2015. One particularly interesting aspect here is the automatic hibernation of object data in relational databases. PSI is thus pressing ahead with its transformation from a software product provider into a platform provider. In this context, PSI is refining only the most widely internationally recognised, open global standard Java/Eclipse with industrial characteristics such as high availability, real-time capability, multi-client capability and adaptability and has expanded it with its own components, rather than pushing another proprietary platform onto the market.

> PSI is pressing ahead with its transformation from a software product provider into a platform provider.

We increased permanent contracts for maintenance, upgrade and cloud/SaaS services from EUR 51.2 million a year to EUR 52.4 million and intend to press ahead with this, supported by the IT security standard ISO 27001. At EUR 13.6 million, licences were only slightly higher than the previous year's level (EUR 13.2 million). There are two new licences that will be recognised only over the course of a product plan.

OUTLOOK INDICATES GROWTH AND RISE IN PROFITS

The Board of Directors would like to thank the shareholders for their trust in the long-term strategy characterised by fundamental investments. Our customers base important parts of their business strategy on PSI software. This fills us with pride and gratitude. We will continue to do our utmost to optimise our customers' production processes with ever better software. And we are increasingly helping customers to generate digital income. We would like to thank our employees for their loyal, dedicated and creative work. In view of the stabilisation of our markets in recent months and building on the progress made in the transformation, we are looking ahead to the 2017 financial year with more confidence again. We intend to generate growth again and are aiming for earnings of EUR 12 million to EUR 15 million.

Berlin, March 2017

Dr. Harald Schrimpf   Harald Fuchs

KARSTEN TRIPPEL

Supervisory Board Chairman

Dear PSI shareholders, dear friends and partners of our company,

As in the previous years, the Supervisory Board worked in trusting cooperation with the Board of Directors again in the 2016 financial year. Its work particularly focussed on the Group's current situation in the context of the economic environment, the medium-term corporate planning and the strategic development of the Group. We therefore regularly monitored the Board of Directors' work and provided advice according to the law, the company's Articles of Association and the German Corporate Governance Code. The Board regularly informed us promptly, in writing and orally about the situation of PSI AG. On this basis, we discussed business performance and decisions in detail. The Board of Directors fully met its obligations to provide the Supervisory Board with information.

The Supervisory Board ensured that the law, the Articles of Association and the rules of procedure of the Supervisory Board and the Board of Directors were complied with. It passed the resolutions required by the law and the Articles of Association. When business transactions required the Supervisory Board's approval, it discussed them in depth with the Board of Directors before passing a resolution. Cooperation between the Supervisory Board and the Board of Directors was always constructive and purposeful.

The Chairman of the Supervisory Board was also in regular contact with the Board of Directors outside of Supervisory Board meetings and was informed about the business situation and material business transactions; the consultation between him and the two Board of Directors members was ongoing and extensive. The Supervisory Board Chairman shared the material information from each of these exchanges with the other members of the Supervisory Board.

MAIN AREAS OF DISCUSSION ON THE SUPERVISORY BOARD

In the performance of its monitoring function, the Supervisory Board's discussions included the following main topics:

- Development of new orders, revenues and earnings of the PSI Group and the individual business units
- Supervision of measures to limit risks in Southeast Asia (particularly PSI Incontrol) by way of capacity adjustments and a stronger focus on software business
- Preparation of the generational change in the management of the PSI Metals Group
- Ongoing supervision of further steps in the transformation of the Group from a project-based to a more product-based business model
- Ongoing supervision of the migration of further Group activities and products to the new, Group-wide technology platform

At the beginning of the year, the Supervisory Board also concerned itself with the appointment of a new Supervisory Board member in accordance with section 104 (1) of the German Stock Corporation Act (AktG). This new appointment was necessary after the long-standing Supervisory Board Chairman Prof. Rolf Windmöller resigned his post for health reasons with effect from 31 December 2015. Andreas Böwing was appointed as a new Supervisory Board member by court order on 5 February 2016 and elected at the Annual General Meeting on 12 May 2016. On 16 February 2016, Karsten Trippel was elected as the new Supervisory Board Chairman.

The Supervisory Board's regular discussions and resolutions concerned the annual financial statements, the review of the Group strategy and its implementation, short- and medium-term planning, the ongoing development of operating business, the review and enhancement of the Group risk management system and the audit of its own work. In addition to the financial performance of PSI AG and the Group, the Supervisory Board also concerned itself with the development of individual subsidiaries, paying particular attention to their activities abroad. The Supervisory Board was also provided detailed information from the Board of Directors on an ongoing basis regarding the development of the business and financial situation, the risk situation, the market and competitive situation and the personnel situation in these areas. The Supervisory Board held seven ordinary meetings in order to perform its duties in 2016. These included one meeting devoted primarily to the discussion and adoption of the annual financial statements, one strategy meeting, one planning meeting, and one audit meeting. The Supervisory Board was in full attendance at all meetings.

WORK OF THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has formed two committees.

The Personnel Committee deals with the employment contracts and personnel matters of the Board of Directors. The committee met twice in the financial year with full attendance. Among other things, it dealt with the structure of Board of Directors remuneration. This focused in particular on the vertical comparison between the remuneration of top management and the remuneration of the workforce of PSI as a whole – as required by the German Corporate Governance Code.

The Audit Committee is particularly concerned with issues of accounting and risk management. The committee met three times in 2016, whereby one meeting served to prepare the adoption of the annual financial statements and the approval of the consolidated financial statements. The Supervisory Board members were in full attendance at all meetings.

The activities of the shareholder representatives on the Supervisory Board (a Nominating Committee was not formed because of the low number of Supervisory Board members) focused on preparing the succession plan for the post of the former Supervisory Board chairman Prof. Rolf Windmöller. This post was vacant after he left the company for health reasons as of 1 January 2016. The Supervisory Board also dealt with the preparation of a succession plan for Mr. Bernd Haus, who will retire from the Supervisory Board in 2017.

CORPORATE GOVERNANCE

As in previous year, the Board of Directors and the Supervisory Board monitored the Group's compliance with the rules of the German Corporate Governance Code. The Supervisory Board adopted the declaration of compliance according to section 161 of the German Stock Corporation Act on 6 December 2016. The company fulfils the majority of the Code's recommendations. The few deviations are explained in the corporate governance report, which was published in connection with the corporate governance declaration on the website at www.psi.de. During the audit, the auditors found no indications of further deviations from the Code's recommendations that were not mentioned in the declaration of compliance.

The Supervisory Board examined the efficiency of its own work at its audit meeting in 2016.

COMPOSITION OF THE SUPERVISORY BOARD AND THE COMMITTEES

In the 2016 financial year, the Supervisory Board comprised the shareholder representatives Karsten Trippel (Chairman), Prof. Ulrich Wilhelm Jaroni (Deputy Chairman), Bernd Haus and Andreas Böwing (from 5 February 2016) and the employee representatives Elena Günzler and Uwe Seidel. The Personnel Committee comprised the Supervisory Board members Karsten Trippel as Chairman, Prof. Ulrich Wilhelm Jaroni and Elena Günzler, while the Audit Committee comprised the Supervisory Board members Bernd Haus as Chairman, Prof. Ulrich Wilhelm Jaroni, Uwe Seidel and Karsten Trippel.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

At the Annual General Meeting of PSI AG on 12 May 2016, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was elected as the auditor of the financial statements. This company audited the annual financial statements, the management report, the consolidated financial statements and the consolidated management report for the financial year from 1 January to 31 December 2016 and issued an unqualified audit opinion in each case.

All Supervisory Board members received the financial statements and management reports, the auditor's reports and the Board of Directors' proposal on the appropriation of net profit after they were compiled and in due time ahead of the meeting convened to approve the annual accounts. After preparatory discussion by the Audit Committee, the Supervisory Board as a whole dealt with these documents at its meeting on 14 March 2017. These meetings were attended by members of the Board of Directors and representatives of the auditor. The latter reported on the audit in general, the audit priorities set, the material findings of the audit and the services that the auditor provided in addition to the audit services, and answered the Supervisory Board members' questions. There were no objections from the Supervisory Board, which therefore acknowledged and approved the results of the audit.

The Supervisory Board examined the consolidated financial statements and Group management report and the annual financial statements and management report for 2016 as well as the results of the audit by the auditor. In accordance with the conclusive findings of these examinations, it raised no objections and adopted the annual financial statements and approved the consolidated financial statements at the Supervisory Board meeting on 14 March 2017. The Supervisory Board agrees with the Board of Directors' proposal on the appropriation of net profit, which stipulates a dividend of EUR 0.22 per entitled share.

The year 2016 was dominated by the sharp fall in energy and raw material prices at the beginning of the year, which impacted the investment propensity of many PSI customers and thus influenced PSI's business. PSI consequently continued the shift in focus from the producer countries to energy distribution and from basic material production to the production and distribution of consumer goods that was begun in the previous year. Despite these changes, PSI increased earnings as planned in 2016, but incoming orders and revenues were down on the previous year's levels. PSI gained important new customers and follow-up orders from existing customers in this environment. Successfully completed pilot projects based on the Group's Java platform lay the foundations for returning to its growth path. The successes achieved jointly by the Board of Directors, management and employees against the backdrop of global transformation in the financial year deserve recognition and respect. The Supervisory Board therefore thanks everyone involved for the work they have done and for their great commitment.

The Supervisory Board thanks customers and shareholders for the confidence they showed in 2016. PSI will remain a reliable partner for customers in 2017 and work with all its strength on supporting them in the continuing digitalisation of their business processes and the development of new, digital business models. Satisfied reference customers will continue to be the basis for gaining further new customers in the future and continuing PSI's positive development.

Karsten Trippel
Supervisory Board Chairman

Berlin, March 2017

The year at a glance

4.0

Since the beginning of 2016, PSI has been a technology partner at the European 4.0 Transformation Centre at RWTH Aachen University.

574

out of a total of 1,619 employees work in export markets.

TOP INNOVATOR

PSI Logistics was recognised as a top innovator at the German SME Summit in 2016.

Dynamic production control

At the Hanover Trade Fair, PSI presented the scenario of decentralised, self-organising production based on integrated PSI standard solutions from the areas of production and logistics.

Strategic alliance for Industry 4.0 in the steel industry

PSI entered into a strategic alliance with the leading global plant manufacturer Primetals Technologies, a joint venture of Mitsubishi Heavy Industries (MHI) and Siemens, for joint projects in the steel industry.

9.5%

of our revenues were spent on research and development in 2016.

35 years

of company history were celebrated by PSI Transcom, which specialises in solutions for public transport, in 2016.

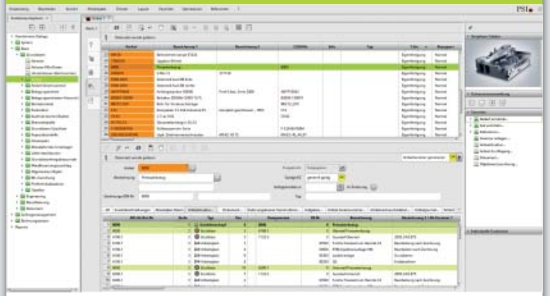
30%

of the PSI Group's revenues in 2016 were generated with long-term maintenance and upgrade contracts.

New workforce management system presented

PSI's Electrical Energy division presented the new PSI*command* version 3.5, which is based on the Group's software platform and has been expanded with key functions, including for mobile use.

Pilot project successfully implemented



At the user conference in the autumn, the first pilot customer reported on its positive experiences with the easily customisable and user-friendly interfaces of the new version of the PSI*penta* production software.

CUSTOMER FOCUS

Pacemaker for innovations

Customer focus has always been at the heart of the PSI innovation process. Managers and technical experts are close to the user and right at the forefront in associations and in research. In this way, we define new business processes and technologies.

PROGRESSIVE OPTIMISATION METHODS

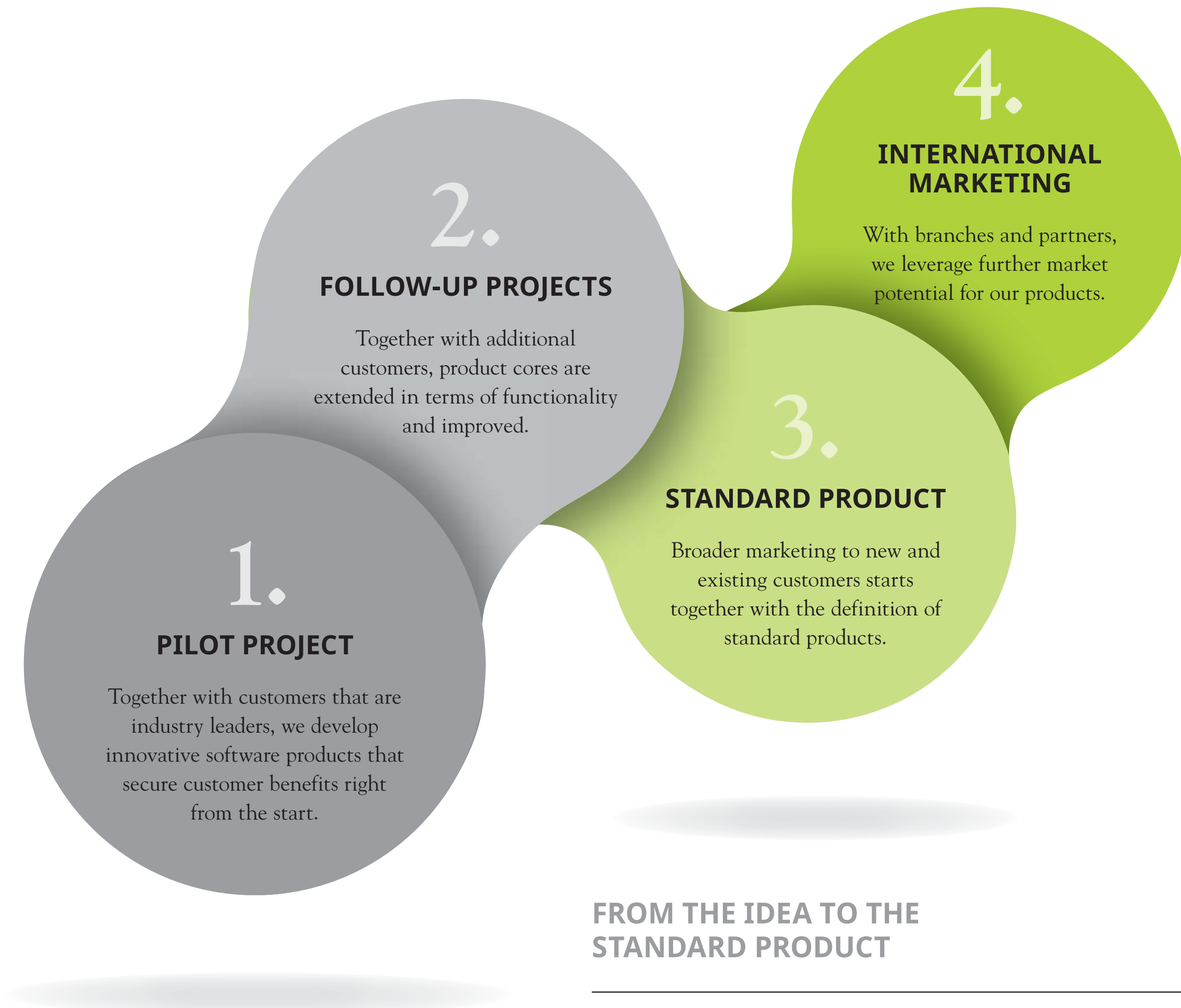
PSI software is based on decades of experience and detailed process knowledge from the energy industry, production, logistics and transport. The optimisation methods developed by PSI go far beyond what is standard on the market and combine different methods and models.

IN REAL TIME AND WITH HIGH AVAILABILITY

PSI solutions were developed for real-time and reliable management and optimisation of success-critical business processes. They are scalable and flexible, making it possible to process very large data volumes in real time. In line with requirements, PSI delivers systems with up to 99.999% availability.

STATE-OF-THE-ART TECHNOLOGY BASE

We use state-of-the-art software technology and apply global industry standards that guarantee future viability. The Group software platform is based on current Java technology, supports multi-layer client-server architectures, model-based development as well as a wide range of operating systems and databases.



FROM THE IDEA TO THE STANDARD PRODUCT

In its innovation process, PSI uses its four-phase model, which has been successful for years. On the basis of the close cooperation with customers that are leaders in their industry and scientific institutions, this method has demonstrated high efficiency in terms of development and has generated results in line with market requirements from the very start.

At the same time, PSI can demonstrate the customer benefit and the performance of new standard software products at an early stage.

INNOVATION

Researching the fundamentals for tomorrow's technology

In numerous research projects and technology programmes with partners from science and industry, we are creating the basis for new innovative products that make a major contribution to the success of future-driven projects such as Industry 4.0 or the energy transition.

The results feed into the development of software products and components that are ready for market and which we use to open up future growth potential for PSI.

ENERGY FLEXIBILITY FOR STABLE GRIDS

1

Research project optimises the integration of smart industrial consumers

In the FlAixEnergy research project and in direct cooperation with large grid operators, PSI is examining the options for utilising the flexibility of energy purchases by large industrial consumers more strongly to achieve grid stability. As a result, companies in energy-intensive industries can generate additional revenues and reduce their energy costs. This allows the grid operators to access an economical alternative to the classical grid stabilisation measures and presents an opportunity for the development of new digital business models.

In the energy industry as well as in the manufacturing and metallurgy sectors, PSI has extensive process knowledge and sophisticated algorithms and methods for increasing the efficiency of energy utilisation. With the combination of these abilities, we want to make a contribution to the economical and environmentally sound provision of energy, while at the same time maintaining high security of supply.


Local ID: SPOPCRC-004
Me-Id: CRC-NORM
Location: 41.05-4-3
Thickness: 0.3 mm
Width: 1065 mm
Sum length: 8182.7 m
Weight: 20000 kg
Local ID: SPOPCRC-007
Me-Id: CRC-NORM
Location: 41.05-4-6
Thickness: 0.3 mm
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Thickness: 0.3 mm
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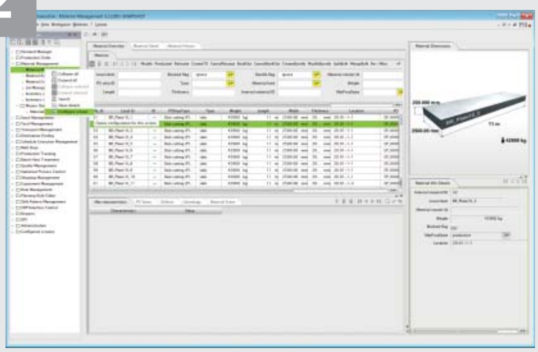
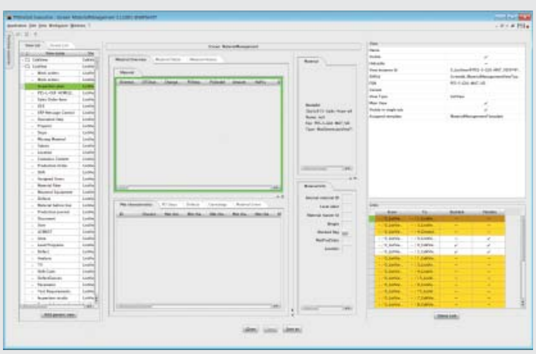
Weight: 18500 kg

PSI CLICK DESIGN

2





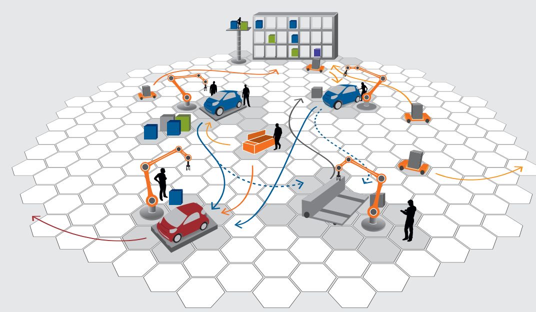
Adjusting interfaces simply and directly at run time

With PSI Click Design, user interfaces can readily be adjusted and configured as required. New screens and views can be generated directly by the user with an intuitive graphical editor. The adjustment of menus, lists, tables and detailed views takes place cost-effectively without programming using drag & drop during run time.

PRODUCTION ISLANDS, NOT CONVEYOR BELTS

3

For the assembly of the future, central control and a linear structure will be replaced by decentralised processes and self-organisation.



Research for individual and self-organising production of the future

In the framework of several research projects of the Industry 4.0 project looking at future production methods, PSI in cooperation with partners is pushing the transformation of production. One focus here is the development and testing of agent-based, self-organising and autonomous controls for flexible, swarm-based manufacturing structures.

This will make it possible to replace the classical conveyor belt technology as the organisational principle for production with flexible production islands and to produce even small series or individual products more economically than was previously the case.

GRID RESTORATION WITH RENEWABLE ENERGY

4

Better grid management and rapid restoration after disruptions

With the increasing share of renewable energy, there has been a considerable change in the structure of energy generation. Large power plants are increasingly being replaced by decentralised generation facilities that thus also have to assume a higher level of system services such as grid restoration.

For this reason, PSI is involved in several research projects relating to the development of new methods and concepts for improved grid management, for example by using agents for autonomous load flow management. Another focus is the development of strategies for grid restoration with renewable energy after a disruption.

CLOUD SAAS APPLICATIONS

5

Thanks to state-of-the-art software technology, many PSI products are already available on the basis of SaaS from the cloud.

Greater flexibility thanks to future-driven cloud solutions

With the use of state-of-the-art software technology, PSI solutions can today be used not only in the classical way, but also flexibly from the cloud. Cloud and SaaS solutions allow a quick start to using the successful PSI products and a high level of viability, particularly for young companies with strong growth.

PRODUCT INNOVATIONS

Successful on the market with innovative technology

We are continuing the development of our market-leading products on an ongoing basis, taking into account trends such as increasing digitalisation and the interlinking of business processes, with the resulting higher levels of complexity.

The focus is on optimising the business processes of our customers, which we achieve by integrating physical, stochastic and business models into the software, thus ensuring superior efficiency.

OPTIMUM LOGISTICS STRUCTURES

1

Planning and optimising logistics networks with supply chain management

Our product PSI*global* allows users to analyse, plan and optimise logistics networks and supply chains, thus supporting strategic decisions and identifying inefficiencies. Using multi-criteria optimisation methods, a favourable balance can be achieved by combining various aspects such as transport costs, operating times, location costs, utilisation levels and emissions with strategic objectives. In this way, users can regularly examine their strategic decisions without additional consultancy costs and align them with changed situations.

As a result of the integration with other products in the PSI Logistics Suite, e.g. Transport Management and Warehouse Management, further efficiency enhancements can be achieved in daily operation and the results of strategic planning implemented effectively. As a result of its high level of flexibility, PSI*global* is used successfully in industry, trading, logistics and by consultants.


TRANSPORTAUFTRAG
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TSA0075302605
DATUM
23.02.2017
STATUS
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THM
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TOUR
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PACKSTÜCKE
1
ANZAHL
1
GEWICHT (KG)
3,5
THM
1
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TSA0075045148
DATUM
23.02.2017
STATUS
ZUS
TOUR
3
PACKSTÜCKE
1
ANZAHL
1
GEWICHT (KG)
2,0
THM
1

MULTI-CLIENT CAPABILITY FOR CONTROL SYSTEMS

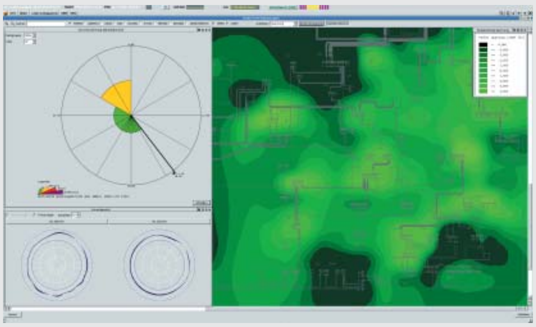
Distributed grid management with a common system

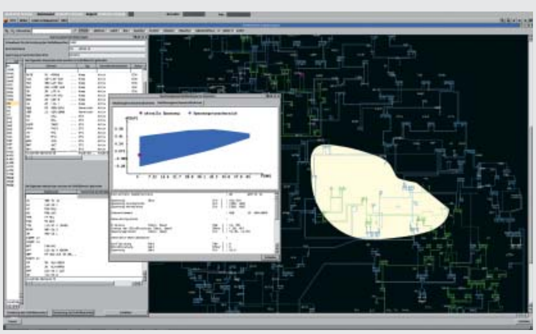
As a long-standing partner of almost all major German and many international grid operators, over the last few years PSI has developed a new control system generation that has been provided with considerable function extensions. Alongside functions for complex grid calculations and applications to meet smart grid requirements, in the context of a pilot project the system was extended to be able to support multiple clients.

This makes it possible to manage a large number of grid areas of independent companies with one single distributed control system. In this case, each company can track and manage only that grid area for which it is responsible, even though the entire data is stored in a central database. The central administration of data storage helps the individual companies to achieve huge savings potential.

INTELLIGENT GRID MANAGEMENT

3





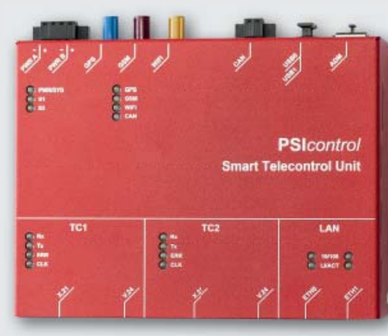
Grid status assessment with the new SASO system

The increasing level of complexity in managing transmission grids places high demands on the control centre staff of the operator. Together with a large transmission grid operator, PSI has therefore developed the SASO system to assess the grid status and determine and prioritise specific measures based on previously specified targets and their weighting.

Currently, SASO is being used as an analysis tool and to provide decision-making support. In the future, the system can also be extended to become a self-learning system that reaches decisions in critical situations on an automated basis, like an autopilot for grid management.

MANAGING SMART GRIDS ON A DECENTRALISED BASIS

4

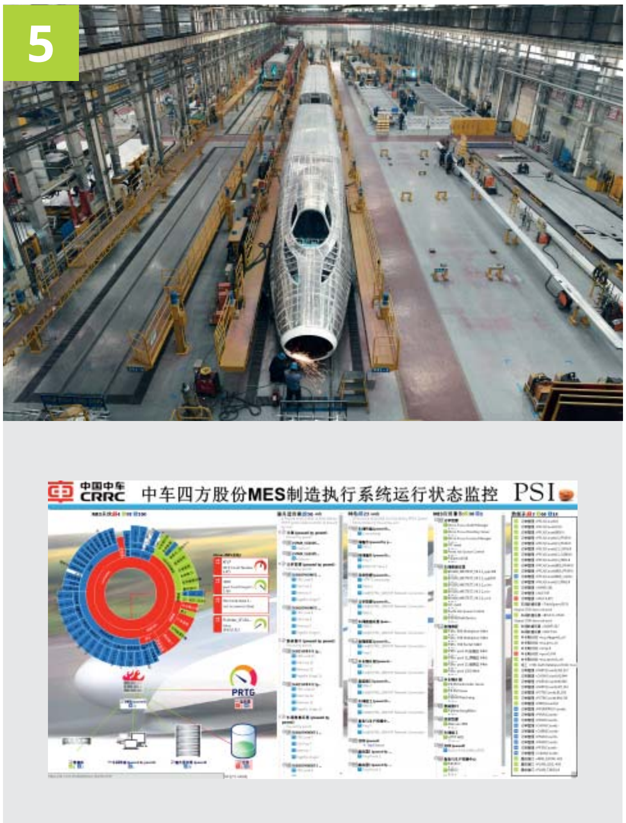


New approach for hierarchical, decentralised management of local grids

With the increasing share of renewable energies, local distribution grids are increasingly becoming collection grids for energy generated on a decentralised basis. Despite increasing fluctuations as a result of weather-driven generation and changed consumer behaviour, they still need to ensure a high level of security of supply and cost-effectiveness.

In this context, PSI has developed a solution that creates a balance between feeding from distributed sources, absorption capacity of the grid, loads and storage capability on the basis of intelligent management of households and centralised local network components.

PRODUCTION SOLUTION FOR ROLLING STOCK

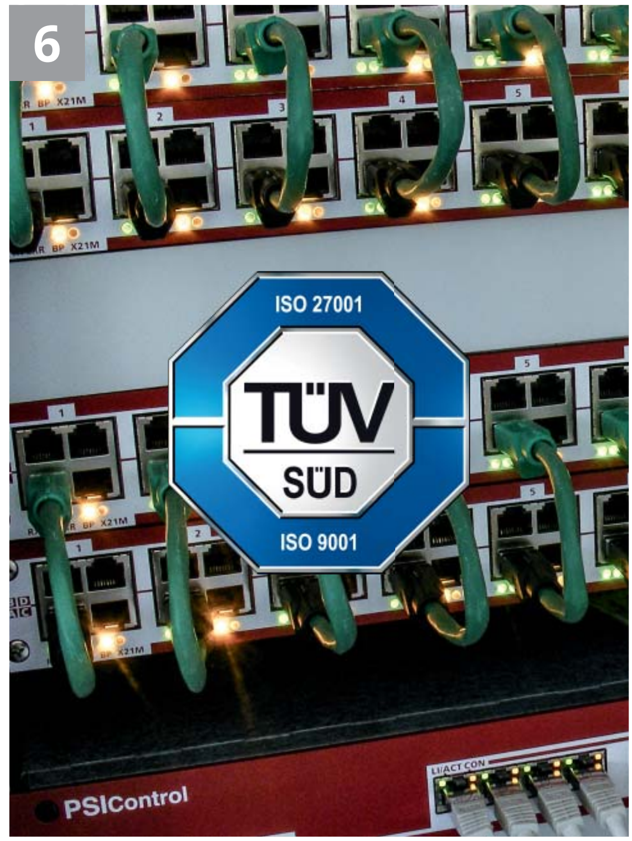


Roll-out at the world's largest manufacturer of rolling stock

For CRRC Sifang, the Chinese manufacturer of rolling stock, PSI has created a comprehensive software solution for the holistic planning and management of production processes, based on PSI standard products but which takes account of the specific requirements of the rail industry. After completing the pilot project, PSI received the order in 2016 to implement the second roll-out phase.

In the area of rolling stock maintenance, PSI received the pilot order from another large customer in 2016 to implement a production planning and management system.

CERTIFIED INFORMATION SECURITY



High security standards implemented for the whole Group

In 2016, the PSI Group was certified in line with the requirements of an information security management system. In the process, high security standards were implemented that also meet the requirements demanded by operators of critical infrastructures. These operators are an important customer group for PSI.

The certification covers the development and sale of control systems and software solutions for utilities, industrial companies and infrastructure operators as well as providing supplementary services.

SOFTWARE FOR THE PRODUCTION OF ELECTRIC VEHICLES

1

Affordable electromobility thanks to innovative concepts

The software used is important when developing innovative development and production concepts in the automotive industry. At StreetScooter GmbH, PSI was involved from the very start with the software for production planning and management.

Series production of the electrically driven van started in 2015, and the van has developed into an impressive success story within a very short period.

NEW DEMANDS ON DEPOT MANAGEMENT

2

E-mobility in local public transport requires additional functions

PSI is a leading provider of solutions for operational and depot management in local public transport as well as for power supply control systems. We have the expertise in information technology that the increased use of electric buses in local public transport needs.

Alongside expertise in telematics and power supply, this also includes functions for charging station management and managing depot energy feeds.

CREATING LONG-TERM VALUE

The PSI share

+ **Leading technology creates new opportunities**
  PSI continuously invests in further development of its technologically leading software products, thereby opening up new business opportunities and efficiency. This improves profitability in the medium term and increases enterprise value.

+ **Fit for the future thanks to research and development**
  With its outstanding industry expertise accumulated over more than 45 years and its close cooperation with customers and research organisations, PSI helps advance technological change and prepares technologies for the challenges of the future at an early stage.

+ **Pioneer in digitalisation and Industry 4.0**
  PSI has invested at an early stage in future topics such as new, digital business models for energy distribution and decentralised, self-organising manufacturing structures. This enables our customers to achieve digital transformation and opens up new growth potential both for them and for us.

+ **Growth potential from updated core technology**
  In recent years, PSI has made significant investments in core technology, implementation methods and optimisation algorithms. The focus over the coming years will be on transforming this into revenues and profit growth, thereby increasing enterprise value.

Share performance during the year

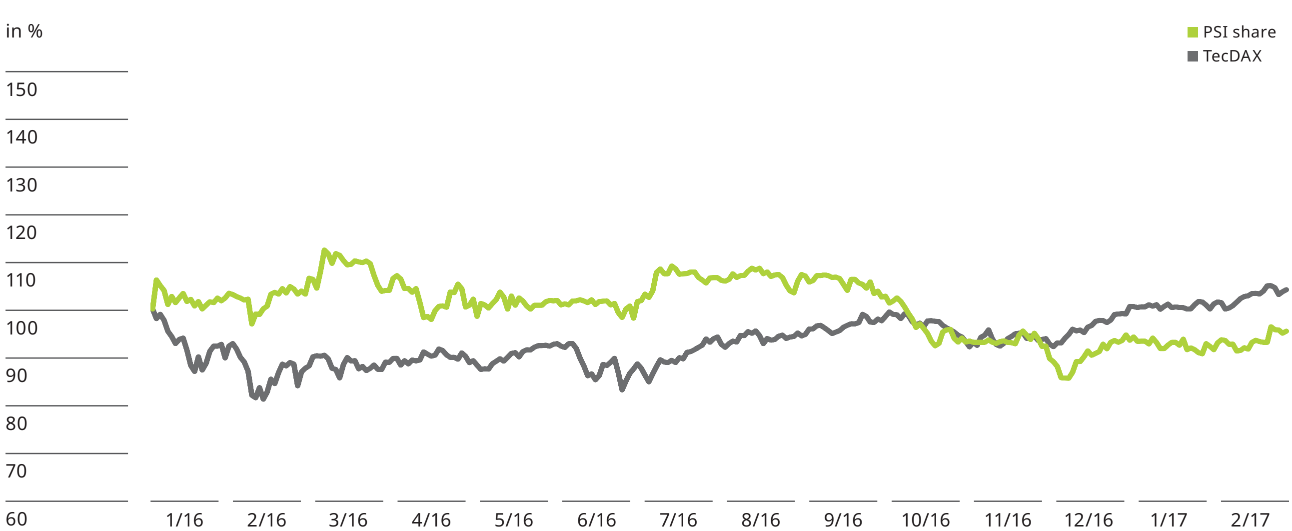
SHARE PRICE TRACKS SIDEWAYS UNTIL AUTUMN

The PSI share started 2016 at a price of EUR 12.90 and tracked sideways in a range of between EUR 12.50 and around EUR 14.50 in a volatile market environment until the autumn. It reached its high for the year of EUR 14.69 in early March but was unable to maintain this level.

SIGNIFICANT PRICE DECLINE BEFORE END OF YEAR

The PSI share was unable to benefit from the good market development in the fourth quarter and fell to its low for the year of EUR 10.55 in early December. Following a rapid recovery to more than EUR 12, it finally ended the year at a closing price of EUR 12.20 – down 5.4% on its closing price from the previous year.

PSI share price compared with TecDAX

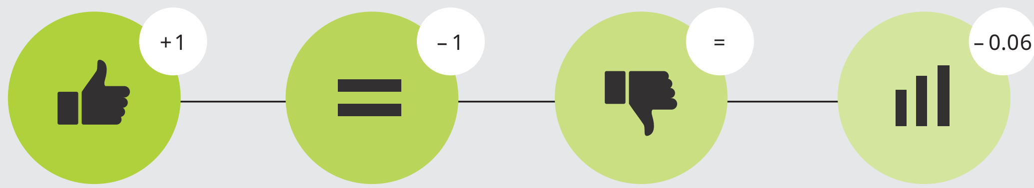


COMMUNICATION FOCUSSING ON INTERNATIONAL DEVELOPMENTS
In addition to the ongoing transformation of the PSI Group, the opportunities and risks of international political and economic developments were the main points of interest for investors in 2016. These particularly included the effects on PSI's business from the slump in the oil price in the first quarter and from the Brexit decision. Other topics included the opportunities arising from the digitalisation of industrial processes and changes in the German energy market.

INTENSIVE DIALOGUE WITH THE CAPITAL MARKET
In this challenging environment, we communicated actively and intensively with the capital market again in 2016. We presented PSI at 18 investment conferences and roadshows in Europe and the USA. In addition, we held many discussions in which we explained our long-term strategy of transforming PSI into an international software product provider and the opportunities arising for PSI with utilities and industrial companies as a result of continuing digitalisation.

Market capitalisation 2009-2015

Analyst recommendations on the PSI share in 2016

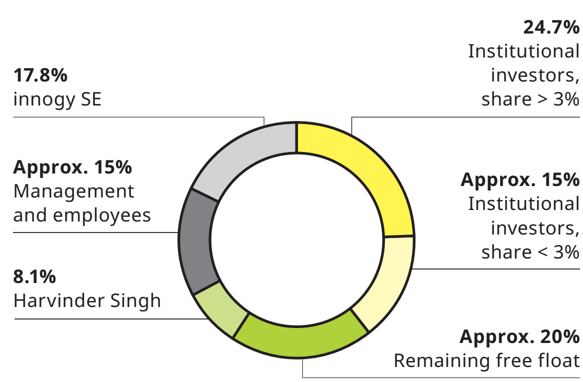


6	4	0	13.77
positive	neutral	negative	Average target in EUR

Key figures on the PSI share		**2016**	2015
Earnings per share	in EUR	0.55	0.48
Market capitalisation on 31 December	in EUR	191,507,865	202,496,021
High for the year	in EUR	14.69	13.95
Low for the year	in EUR	10.55	9.30
Number of shares on 31 December		15,697,366	15,697,366

Data on the PSI share	
Stock exchanges	Xetra, Frankfurt, Berlin, Stuttgart, Düsseldorf, Hamburg, Hanover, Munich, Tradegate
Stock exchange segment	Regulated Market, Prime Standard
Inclusion in indices	Technology All Share, DAXsector Software, DAXsector All Software, DAXsubsector Software, DAXsubsector All Software, Prime All Share, CDAX
ISIN	DE000A0Z1JH9
Securities identification number (WKN)	A0Z1JH
Stock exchange symbol	PSAN

Shareholder structure on 31 December 2016



CONSOLIDATED

Financial Statements

CONSOLIDATED

Management Report

+ **Consolidated revenues** down 3.7% on previous year
+ **Earnings and liquidity position** record further improvement
+ **EBIT margin** rises from 6.0% to 6.7%
+ **Order backlog** unchanged at EUR 129 million
+ **Share of revenues from licences and maintenance** increases
+ **Increase in earnings** in Energy and Production Management, decline in Infrastructure Management

BASIC INFORMATION ON THE GROUP

Business model of the Group

The core business of the PSI Group consists of process control and information systems for the management of energy and material flows in the following industries:

- utility companies in the electricity, gas, oil and district heating sectors
- industry in the metallurgy, raw material extraction, mechanical and plant engineering, automotive, automotive supply and logistics sectors
- infrastructure operators in the areas of transport and safety

The Group is accordingly divided into three segments: Energy Management, Production Management and Infrastructure Management. For these economic sectors, PSI develops and sells its own software products and complete systems based on these software products.

In the Energy Management segment, the PSI Group develops control systems for electricity grids, cross-sector control systems, gas and pipeline management systems, and solutions for virtual power plants, energy trading, energy distribution and portfolio management in liberalised energy markets.

In Production Management, PSI has an integrated portfolio of solutions for planning and controlling production processes in raw material extraction, metal production, logistics, mechanical engineering and automotive manufacturing.

The Infrastructure Management segment comprises control system solutions for monitoring and operating infrastructure in the areas of transport and safety.

With more than 1,600 employees, PSI is one of the biggest software producers in Germany. As a specialist in high-quality process control systems, the Group has gained a leading position nationally, as well as internationally in the target export markets, particularly among utility companies and metal producers. The key competitive advantages are the functionality and innovativeness of PSI's products. PSI was established in 1969, making it one of the most experienced German software companies.

In Germany, the PSI Group has locations in Berlin, Aachen, Aschaffenburg, Dortmund, Düsseldorf, Essen, Hamburg, Hanover, Karlsruhe, Munich and Stuttgart. Internationally, PSI is represented by subsidiaries and representative offices in Australia, Austria, Bahrain, Belgium, Brazil, China, India, Japan, Malaysia, Oman, Poland, Russia, Switzerland, Thailand, Turkey, the United Kingdom and the USA.

Strategy and control system

The central aspects of the Group's strategy are growth, internationalisation and a stronger focus on the software product business. To achieve its strategic goals, the PSI Group focuses on technology leadership and a high pace of development in order to influence trends in the target sectors at an early stage. In some cases, products and technologies are developed in collaboration with customers in pilot projects.

PSI pursues a growth strategy with a particular focus on international business. The main growth driver is exports to markets in Northern and Central Europe and increasingly also to North America. Over the coming years, PSI will endeavour to achieve a further increase in the share of revenues attributable to products, to expand the share attributable to exports, and to step up business in the geographical target markets. This will create economies of scale and therefore improve the conditions for further increases in profitability.

The key performance indicators for achievement of the strategic goals are:

- the ratio of operating result to revenues (EBIT margin) as the main key figure for improvement in the Group's profitability
- the development of revenues as a key figure for the Group's growth rate
- new orders as a significant leading indicator of future revenues growth
- the share of consolidated revenues attributable to licence revenues and maintenance revenues as key figures for PSI's transformation 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 176.9 million as a result of its strategy focusing on growth and profitability. During this period, the share attributable to international revenues in the Group more than tripled, rising from 13% to 45%.

Research and development

Innovative products and maintaining a technological edge are among the most important competitive advantages in the software market. For this reason, the development of new unique selling points and products plays a key role for the PSI Group. Functionality and modernity are pivotal factors for economic success, as are the use of Group-wide development platforms and the exchange of new functionalities within the Group.

When developing new products, PSI works closely with industry-leading pilot customers. This collaboration ensures right from the start that the products will offer customer benefits. These products are then continuously evolved in follow-up projects and adapted to the development in the target markets. The resulting product cores form the basis for wider distribution and export.

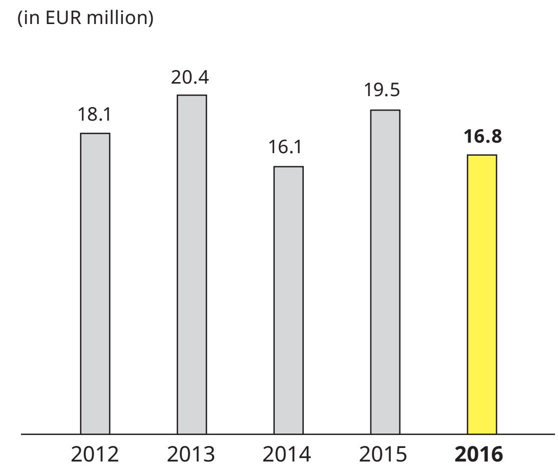
Development activities in 2016 focused on the migration of the workforce management system in the Energy Management segment to the Group-wide software platform, as well as on further development of this platform and its changeover to the current Java version 8 and the higher-performance FX graphics standard. PSI has established a Group-wide development community and developed a modern software platform that will form the basis for all products in the medium term. The objective is to further increase reuse of the same software modules in the Group and to standardise software tools and the programming language for all employees worldwide. The software platform improves the conditions for further export growth and also reduces development costs.

In 2016, the PSI Group's research and development expenses amounted to EUR 16.8 million, down from EUR 19.5 million in the previous year. This amount did not include any relevant purchased services.

Development work in 2016 focused on:

- new advanced scheduling and monitoring software to replace the previous control centre software
- further development of the new Java-based SCADA system
- functional extension of the PSI*command* workforce management system and its migration to the Group-wide software platform
- functional extension of the PSI*control* grid control system with functions for feed-in and grid management, grid security, forward-looking grid calculations and multi-client capability
- implementation of a cloud/SaaS version (Software-as-a-Service) of the logistics suite migrated to the Group software platform

R&D expenses reduced



- new, mobile support of service processes for users of the PSI*penta* production software
- ongoing further development of the Group-wide software platform and its roll-out in further business units. This further development particularly relates to improvements in the modelling and configuration of user interfaces using PSI's Click Design technology, which will reduce development and implementation expenses in the future

In the Production Management segment, software products migrated to the Group platform were successfully implemented at pilot customers. As a result, the broad-based marketing of the products can be started in 2017. At the Hanover Trade Fair 2016, PSI presented a scenario for complex development contracts processes in the factory of the future.

In addition to product development, PSI has also been involved in state-subsidised research projects for fundamental technology development for many years. One focus of this research is projects dedicated to implementing the future-oriented Industry 4.0 project initiated by the German federal government. This includes developing platforms for creating adaptable production systems, controlling intelligent logistics networks and optimising series production by replacing conveyor belts with swarm manufacturing concepts on the basis of intelligent, self-controlled workplaces.

Another focus of PSI's research is projects that deal with the development of technologies for the digital transformation of energy supply. This includes developing smart grid technologies, combining load forecasts with the management of decentralised generation and final consumption, grid restoration taking account of future generation structures and involving industrial consumers in the marketing of energy flexibilities on the spot market for energy and on the balancing energy market.

The knowledge gained in the projects is used in accordance with the cooperation or consortium agreements concluded between the parties involved in the respective research association. The subsidies cover around 40% to 50% of the personnel expenses and operating expenses incurred for these research projects in the PSI Group. The use of the funding must be accounted for vis-à-vis the funding body on an ongoing basis and on completion of the project. In the 2016 financial year, the PSI Group received state subsidies totalling EUR 0.8 million.

ECONOMIC REPORT

Business performance and general conditions

Stabilisation on the global steel market

For a focused software provider like PSI, the economic development in its key target sectors is particularly important. According to the World Steel Association, the economic environment in the global steel market, in which PSI is one of the main software suppliers, stabilised. After a decline of 2.8% in the previous year, global crude steel production increased by 0.9% in 2016. In this environment, PSI increased new orders in this area as it did in the previous year.

For operators of electrical distribution grids in Germany, which represent an important group of customers for the Group, 2016 was the regulatory base year for the next regulatory period of the incentive regulation. In this business area, PSI again posted good new orders, but did not reach the very high level of the previous year.

Increase in earnings at Electrical Energy and Automotive

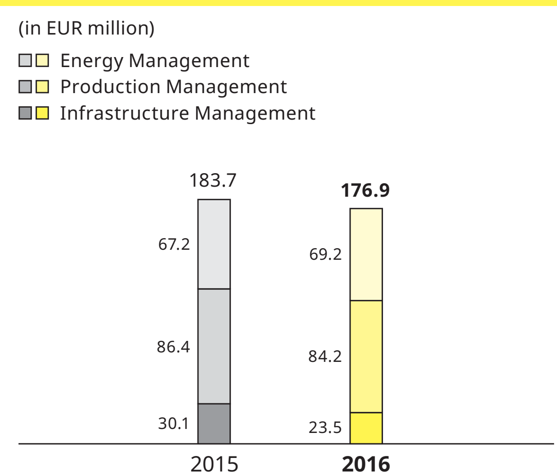
Another slump in raw material prices in the first quarter of 2016 resulted as it did in the previous year in growth being shifted from upstream business (close to raw material extraction) to downstream business (close to end consumers) and from regions that are heavily dependent on raw material exports to industrialised countries characterised by raw material imports. In this difficult environment, PSI saw a downturn in consolidated revenues, but again improved its operating result and Group net result. New orders amounted to EUR 182 million, down 6.7% on the previous year's level of EUR 195 million. Order backlog at the end of the year was constant at EUR 129 million.

In the Production Management segment, after the migration of its products to the Group software platform the Automotive & Industry division successfully concluded an initial pilot project and increased earnings considerably. The Metal Production division also generated higher earnings than the previous year, despite revenues being lower. In the energy market, the high new orders of the previous year resulted in revenues and earnings being higher in the Electrical Energy division, while the Gas and Oil division posted lower revenues and earnings as a result of the slump in oil prices.

In 2016, following conclusion of the pilot phase, China Railway Rolling Stock Corporation Limited, the world's largest rolling stock manufacturer, awarded PSI the order for the second phase of the roll-out of a comprehensive software package to support the manufacturing processes in further business areas.

On 5 July 2016, PSI agreed a strategic cooperation with Primetals Technologies Germany GmbH concerning the joint sale and implementation of production management solutions for the steel and aluminium industry. Primetals Technologies is a joint venture between Mitsubishi Heavy Industries and Siemens. Its portfolio covers holistic solutions for engineering, plant engineering and lifecycle services in the metallurgy sector.

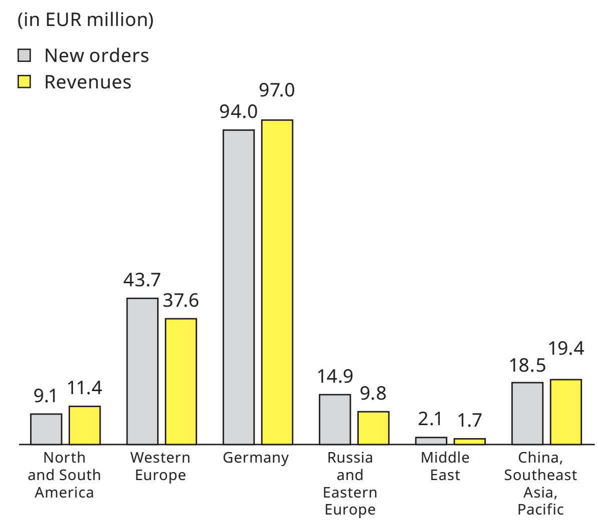
PSI revenues down on previous year



Overall assessment of the business performance

With operating result of EUR 11.8 million, PSI reached its 2016 target of improving operating result to between EUR 11 million and EUR 13 million, resulting in an improvement in the EBIT margin from 6% in the previous year to 6.7%. With revenues declining by 3.7%, the targeted growth in the mid-single-digit percentage range in consolidated revenues was not achieved. The share attributable to licence business increased from 7% to 8%, while that of maintenance business rose from 28% to 30%. Considerably weaker business in Infrastructure Management, particularly in Southeast Asia, was offset by a positive earnings performance in Energy Management and Production Management. Overall, as a result of lower raw material prices, business developed positively particularly in the developed industrial countries of Northern and Western Europe, while PSI posted declines in new orders and revenues in the emerging countries. Broadening the customer base in industrial countries has put into place important prerequisites for the continuation of the positive earnings trend and the return to the growth path.

New orders and revenues by region

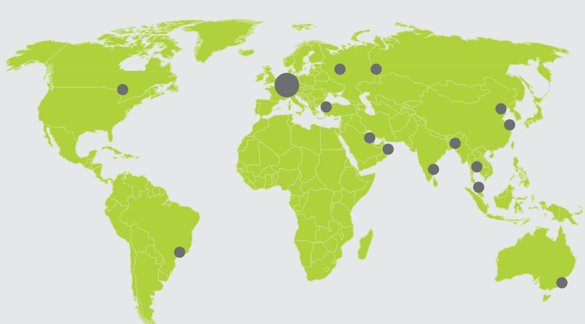


Result of operations

Consolidated revenues down on previous year

Consolidated revenues amounted to EUR 176.9 million in 2016, down 3.7% on the previous year's level of EUR 183.7 million. Energy Management improved revenues by 3% against the previous year, while revenues in Production Management were down 2.5% year-on-year. After the reduction of employee numbers in Southeast Asia, revenues in Infrastructure Management were down 21.9% on the previous year. Revenues per employee based on the average number of people employed in the Group decreased slightly from EUR 110,000 to EUR 108,000.

International presence and locations in Europe and worldwide



● PSI locations: Australia, Austria, Bahrain, Belgium, Brazil, China, Germany, India, Japan, Malaysia, Oman, Poland, Russia, Switzerland, Thailand, Turkey, United Kingdom, USA

Further reduction in share of purchased services

Expenses for purchased goods and services decreased by EUR 5.4 million to EUR 26.2 million. Expenses for project-related procurement of hardware and licences was down EUR 3.3 million, while expenses for purchased services declined by EUR 2.1 million. At EUR 109.3 million, personnel expenses were up 2.3% year-on-year.

Further improvement in operating result and Group net result

The Group's operating result climbed by 6.3% from EUR 11.1 million in the previous year to EUR 11.8 million. Group net result accordingly increased from EUR 7.5 million to EUR 8.6 million in the year under review. The main reasons for the improvement in earnings were the better business performance in the Energy segment and the Automotive & Industry division. Earnings per share accordingly improved from EUR 0.48 to EUR 0.55. Gas and Oil, Electrical Energy, Metal Production, Automotive & Industry and Logistics made a particularly strong contribution to earnings. The main factors with a negative impact on earnings were expenses for a large mining pilot project in China and the weak business situation in Southeast Asia.

New orders down on previous year

New orders amounted to EUR 182 million in 2016, down 6.7% on the previous year's figure of EUR 195 million, but 3% higher than revenues. Order backlog as at the end of the year were constant at EUR 129 million.

Revenues share attributable to exports lower, maintenance and licence revenues higher

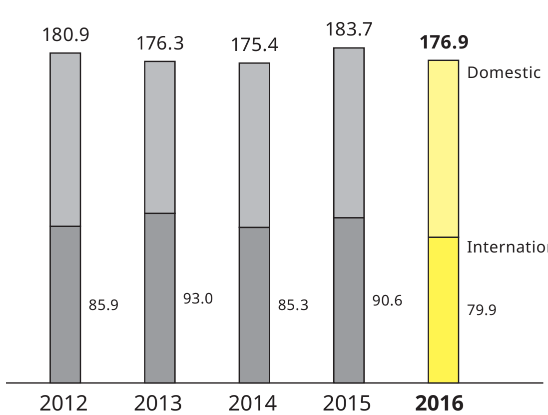
Revenues generated outside Germany decreased by 11.8% from EUR 90.6 million in the previous year to EUR 79.9 million. This means the export share declined from 49% to 45%. As a result of the strong upturn in Northern and Western Europe parallel to a decline in Germany, the share attributable to international orders rose from 43% to 48%. Maintenance revenues grew from EUR 51.2 million to EUR 52.4 million, causing the share attributable to maintenance to rise from 28% to 30%. Licence revenues posted an increase from EUR 13.2 million to EUR 13.6 million. In line with the focus on increasing software product business, maintenance and long-term upgrade contracts in particular are to be increased further.

Energy Management increased its revenues, causing the share of consolidated revenues attributable to this segment to rise from 37% in the previous year to 39%. The share attributable to Production Management rose from 47% to 48%, while that of Infrastructure Management fell from 16% to 13%. Infrastructure Management includes the revenues of the PSI Incontrol Group, which operates in the energy management sector with Asian customers as well as in infrastructure projects.

Lower export share

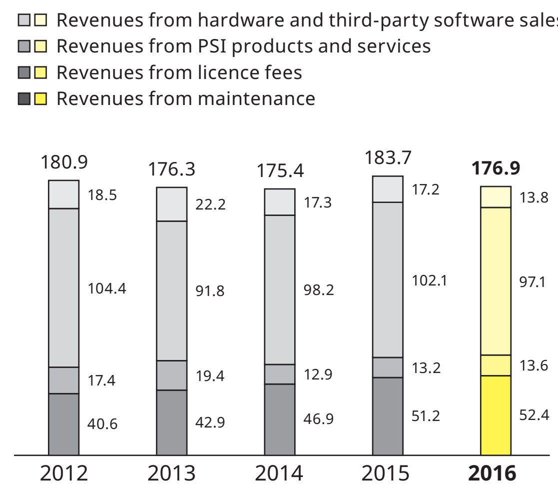
(in EUR million)

Not including foreign revenues from domestic export partners



Share of maintenance revenues increased further

(in EUR million)



Energy Management segment posts continued upward trend in 2016

Energy Management in 2016 was characterised by a somewhat weaker development in the Gas and Oil division and an improvement in the Electrical Energy division. Overall, revenues increased by 3% to EUR 69.2 million. The segment comprises the Electrical Energy, Gas, Oil, Heating and Energy Trading divisions. Operating result improved from EUR 5.3 million in the previous year to EUR 5.8 million. The Gas and Oil division suffered from the slump in raw material prices in the first quarter and the subsequent only hesitant increase in demand. The Energy Trading division increased earnings after the product investments made in the previous years.

Production Management with earnings jump at Automotive & Industry

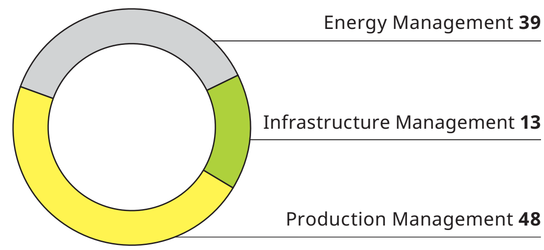
Revenues in Production Management declined by 2.5% to EUR 84.2 million in 2016. In this segment, PSI develops solutions for efficient planning and controlling of production and logistics processes. PSI is continuing to invest heavily here in the future-oriented topic of Industry 4.0 and is developing interesting unique selling points and growth potential as a result. The segment's operating result rose from EUR 6.2 million in the previous year to EUR 7.1 million. Despite the global steel crisis, the highest margins were generated by PSI Metals and PSI Logistics, which invested in the migration of its warehouse management software to the Group platform. The production software provider PSI Automotive & Industry successfully completed its first customer project based on the new release of the PSI*penta* production software and nearly doubled its earnings.

Infrastructure Management records stable business in public transport and in Poland

The revenues generated in Infrastructure Management in 2016 was down 21.9% year-on-year at EUR 23.5 million. Operating result declined from EUR 0.8 million in the previous year to EUR 0.1 million. The Public Transport division confirmed the positive result it generated in the previous year, while at the Asian PSI Incontrol revenues and earnings declined as a result of capacity alignments in hardware business and the conclusion of market entry projects that impacted negatively.

Revenues allocation by segment

(in %)



Group structure as of 31 December 2015

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. (Turkey)	100%
Time-steps AG (Switzerland)	100%
OOO PSI (Russia)	100%
OOO OREKHsoft (Russia)	49%
OOO Gazavtomatika dispetcherskije sistemy (Russia)	33%
caplog-x GmbH	31.3%

Production Management

PSI Mines&Roads GmbH	100%
PSI Automotives & Industry GmbH	100%
PSI Metals GmbH	100%
PSI Metals Austria GmbH	100%
PSI Metals Belgium NV	100%
PSI Metals Non Ferrous GmbH	100%
PSI Information Technology Shanghai Co. Ltd. (China)	100%
PSI Metals North America Inc.	100%
PSI Metals Brazil Ltda.	100%
PSI Metals UK Ltd.	100%
PSI Metals India Private 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%

Financial position

PSI's monthly liquidity planning and the measures derived on this basis ensure that the financial requirements for operating business and investments are covered. Risk Management prepares a rolling monthly forecast that covers all companies and has a planning horizon of twelve months. This minimises taking up bank loans by the individual Group companies and optimises interest income from fixed term deposits. Current and non-current financial liabilities were reduced further in 2016.

Financing from operating business as far as possible

PSI's investing activities are focused on further development of its products and international expansion of its business, both of which are intended to be financed from operating business as far as possible. With regard to both internationalisation and the development of new products and functionalities, PSI focuses on major pilot customers and reliable partnerships.

On 31 December 2016, PSI had guarantee and cash credit facilities totalling EUR 113.2 million for financing its operating business. In the previous year, guarantee and cash credit facilities had amounted to EUR 116.5 million. Utilisation related almost entirely to the guarantee credit facilities and decreased from EUR 43.5 million in the previous year to EUR 42.1 million as at the end of the reporting period. In the 2016 financial year, the Group was able to meet its payment obligations at all times. The Group has internal ratings from its principal banks that roughly correspond to the rating categories between BB+ and BBB+.

Cash flow from operating activities slightly down on previous year

Cash flow from operating activities declined from EUR 14 million in the previous year to EUR 13.3 million. As in the previous year, it was chiefly influenced by changes in working capital.

Cash flow from investing activities declined from EUR –2.2 million to EUR –2.9 million. As in the previous year, it was primarily affected by replacement investments in property, plant and equipment and intangible assets.

Cash flow from financing activities recorded a decrease to EUR –6.7 million as a result of the resumption of dividend payments and loan repayments. In the previous year, it had amounted to EUR –2.1 million.

Cash and cash equivalents at the end of the year rose from EUR 38.8 million to EUR 43 million.

Net asset situation

Asset structure: slight decrease in goodwill

In 2016, the PSI Group invested a total of EUR 3.2 million in intangible assets and property, plant and equipment. The investments primarily related to intangible assets and property, plant and equipment acquired from third parties. In the previous year, investments had amounted to EUR 2.9 million.

The carrying amount of goodwill declined from EUR 49.6 million to EUR 48.9 million due to currency effects.

Structure of the balance sheet: equity ratio of 38%

Total assets of the PSI Group declined slightly from EUR 199.5 million to EUR 199.4 million in 2016.

On the assets side, non-current assets decreased from EUR 78.8 million to EUR 78.7 million. Current assets were constant at EUR 120.7 million. Within this category, cash and cash equivalents climbed by EUR 4.2 million, while trade receivables were EUR 8.7 million lower, whereas receivables from long-term development contracts rose by EUR 1.8 million.

On the equity and liabilities side, current liabilities decreased from EUR 77.3 million to EUR 69.2 million, particularly due to the decrease in current financial liabilities and liabilities from long-term development contracts. Non-current liabilities climbed from EUR 49 million to EUR 55 million, driven primarily by the increase in pension provisions. Equity increased from EUR 73.2 million to EUR 75.3 million. The equity ratio accordingly improved from 37% to 38%.

Overall assessment of result of operations, balance sheet and net asset situation

In the 2016 financial year, the result of operations, balance sheet and net asset situation of the PSI Group improved in comparison to the previous year. In particular, there was a further improvement in the result of operations and the liquidity position. For 2017, the management anticipates a further increase in earnings and a positive cash flow again. As such, the Group still has the financial prerequisites to finance organic growth and selective acquisitions.

SUSTAINABILITY

Ever since the company was founded in 1969, sustainability has been a very important issue for PSI, both in customer projects and in its internal processes. In addition to the environment, this also encompasses the social commitment of companies and employees as well as corporate governance.

Transparent and responsible corporate governance

PSI follows ethical principles in its dealings with customers, shareholders, employees, partners and competitors. These principles are set out in the Code of Conduct, which is publicly accessible on the Group's website at www.psi.de. Here, PSI commits to fair business practices and compliance with legal standards for fair working conditions, protection of natural resources, fair business conduct and protection of intellectual property.

In addition to the Code of Conduct, PSI has adopted a guideline system that governs many different aspects of sustainable and responsible corporate governance. PSI once again complied with the recommendations of the Government Commission on the German Corporate Governance Code in 2016, with a small number of exceptions that are discussed in the declaration of compliance. The declaration of compliance and the corporate government declaration are published on PSI's website at www.psi.de/en/psi-investor-relations/corporate-governance.

Sustainability in PSI solutions and internal processes

PSI's software solutions make a significant contribution to careful and sustainable use of energy, raw materials and labour in the energy industry and the production sector. For this reason, PSI's production management systems for the steel and aluminium industry incorporate functions for optimising the use of energy and using quantities of energy that are released during production.

PSI's control systems for managing major electricity grids have been and still are continuously expanded with functions for intelligent management of the feed-in of renewable energy. Together with partners from the energy industry and academia, PSI is actively involved in developing the intelligent energy supply infrastructure of the future. Among other things, this includes products for virtual power plants and intelligent microgrids. PSI's gas management systems allow optimised control of the compressor stations required for grid operation and minimise technical losses. Leak detection and location systems help reduce losses when transporting gas and oil over long distances and avoid environmental damage.

In the field of logistics and transport, PSI has in recent years developed new solutions for dynamic control of optimised logistics networks that help reduce transport costs and emissions by up to 10%. Further functions include energy-optimised driving in rail transport and a depot management system with route and fuelling optimisation. This gives customers effective support in reducing greenhouse gases and saving energy.

Due to the fact that PSI as a services company does not manufacture any physical products, the PSI business processes impact the environment and resources only in a marginal fashion. PSI works with green IT equipment and uses combined heat and power generation at its location in Aschaffenburg. To evaluate energy flows and potential for improvement in the area of energy efficiency, in 2016 PSI carried out an energy audit in line with DIN EN 16247-1. PSI has participated in the Carbon Disclosure Project since 2011 and has steadily improved its score since then. As in previous years, PSI was again awarded the DZ Bank Seal of Quality for Sustainability in 2016. Implementation of environmental management is currently being evidenced by external energy audits and involvement in the Carbon Disclosure Project. Preparations are being made for certification in line with DIN EN ISO 14001.

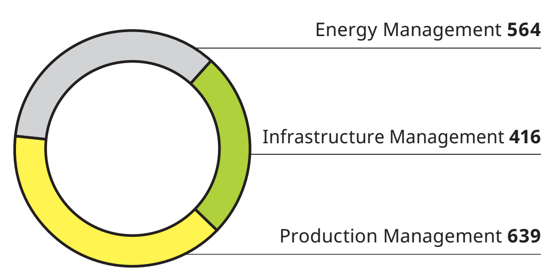
Social commitment of companies and employees

PSI has been involved in social activities for many years. Examples include various regional initiatives to support charitable organisations based near PSI locations. In addition, PSI supports team sports activities of various different employee groups by funding participation in competitions and equipment.

Further details on the topic of sustainability are published on PSI's website at www.psi.de/en/psi-investor-relations/sustainability.

Production Management remains the largest segment

(number of employees)



EMPLOYEES

For a specialised software provider like PSI, the high qualifications and motivation of its employees are key success factors. For this reason, the PSI Group has for many years been characterised by a particularly high proportion of graduates with specialist industry expertise. The proportion of employees with a university degree averages approximately 80%. The largest share of these employees have an engineering degree.

Employee development and training are crucial for the functionality and innovativeness of the products developed by PSI. The main focus areas here are specialist training for new employees at the international locations and in Germany and employee development for internationalisation. This takes place in the form of sales, project management and contract law training and courses relating to Group software tools. Group-wide work teams focusing on the topics of technology, infrastructure, product management, maintenance, quality management, controlling and marketing promote knowledge transfer and standardisation within the Group. Employee training for the uniform Java technology platform is particularly important for the strategic development of the Group. In 2016, an average of six days per employee were invested in training.

In order to make contact with graduates in the relevant courses of study at an early stage, PSI is involved in promoting education and research in science and engineering at many different levels. For example, at its main locations the PSI Group has formed university partnerships that range from offering internships to cooperating on dual courses of study.

Since autumn 2010, PSI has been involved as an industry partner of the logistics research cluster and as a project partner in the environmentally friendly and sustainable energy engineering cluster, while since the beginning of 2016 it has also acted as a technology partner at the new European 4.0 Transformation Centre on the RWTH Aachen Campus.

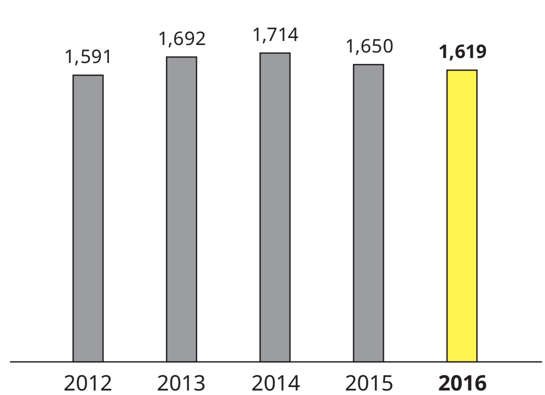
One special aspect at PSI is that a significant share of PSI stock amounting to approximately 25% is held by employees and managers. After PSI AG went public, a large number of employees joined together to form a consortium. Its main objectives are the coordination of uniform voting by the employee shareholders involved at the Annual General Meeting. Since 2011, PSI has issued staff shares to promote employee participation; these shares can be acquired for this purpose on the stock market, for example. The staff turnover rate in the PSI Group in 2016 was around 4%.

The number of employees as at the end of the year declined by 31 to 1,619. A total of 564 employees were allocated to the Energy Management segment, 639 to Production Management and 416 to Infrastructure Management.

Personnel expenses amounted to EUR 109.3 million, up 2.3% on the previous year's level of EUR 106.8 million.

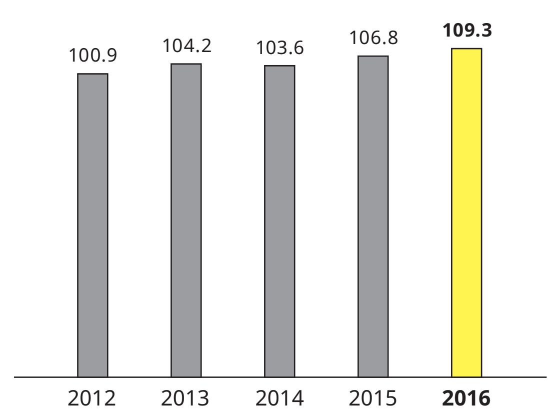
Number of employees lower

Employees at 31 December



Personnel expenses slightly higher

(in EUR million)



STATUTORY DISCLOSURES

Disclosures in accordance with section 315 (4) of the German Commercial Code (HGB)

As at 31 December 2016, the share capital of PSI AG amounted to EUR 40,185,256.96 and was divided into 15,697,366 no-par-value shares with an accounting par value of EUR 2.56. Each share confers the right to one vote. There are no different classes of shares. The shareholders exercise their voting rights at the Annual General Meeting in accordance with the statutory requirements and the Articles of Association. There may be statutory restrictions on voting rights in accordance with section 136 of the German Stock Corporation Act (AktG) or, to the extent that the company holds treasury shares, in accordance with section 71 b AktG. In the second half of 2016, PSI AG issued a total of 51,169 shares in PSI AG to employees as staff shares. A contractual prohibition on the sale of these shares until 30 September 2018 was agreed. There are no further restrictions with regard to voting rights or transfers of shares.

In the 2016 financial year, Mr. Norman Rentrop, Germany, held a 19.52% interest in PSI AG, held via Investmentaktiengesellschaft für langfristige Investoren TGV, which he controls. According to the notification in accordance with section 27a (1) of the German Securities Trading Act (WpHG) dated 14 July 2016, the investment in PSI AG serves the long-term objective of generating trading profits.

In the 2016 financial year, innogy SE, Essen, Germany, held a 17.77% interest in PSI AG. According to PSI AG's knowledge, innogy SE is a company in which RWE AG, Essen, has a majority shareholding. The RWE Group is a major utility company and an important customer of PSI AG in the Energy Management segment. According to the notification in accordance with section 27a (1) of the German Securities Trading Act (WpHG) dated 22 September 2009, the RWE Group's investment in PSI AG serves the purpose of sustainably securing the cooperation between PSI AG and the RWE Group.

PSI AG has not issued any shares with special rights.

There are no voting right controls at PSI AG in relation to employee shares if employees have an investment in the company's capital and do not exercise control rights directly.

In accordance with Article 8 (1) of the Articles of Association, Board of Directors members are appointed and dismissed by the Supervisory Board, which also determines the number of Board of Directors members. Sections 84 et seq. AktG also apply to the appointment and dismissal of Board of Directors members.

In accordance with Article 11 of the Articles of Association, the Supervisory Board is authorised to make amendments and additions to the Articles of Association that affect the wording only. Other than this, the Articles of Association are resolved by the Annual General Meeting with a simple majority of the votes cast and a simple majority of the share capital represented when the resolution is adopted, as stipulated in Article 19 of the Articles of Association. This applies except in cases where the law requires resolutions to be adopted with a majority of at least three-quarters of the share capital represented when the resolution is adopted.

PSI AG has authorised capital of EUR 8 million in place until 11 May 2020 that was created by resolution of the Annual General Meeting on 12 May 2015. This resolution authorises the Board of Directors, with the approval of the Supervisory Board and without requiring a further resolution by the Annual General Meeting, to increase the company's share capital in exchange for cash or contributions in kind. In particular, this can be used as acquisition currency for acquiring companies. The company has not yet exercised this authorisation to date.

PSI AG also has contingent capital of EUR 8 million in place until 6 May 2018. This serves the purpose of servicing convertible and warrant-linked bonds and profit-sharing certificates. The company was authorised to issue this contingent capital in a total nominal amount of up to EUR 100 million by the Annual General Meeting on 7 May 2013. The company has not yet exercised this authorisation to date.

There are no significant agreements of the company that are subject to the condition of a change of control following a takeover bid.

Remuneration of the governing bodies

The Supervisory Board remuneration does not include a performance-related component. It consists of basic remuneration and a component that is dependent on attendance of meetings.

The remuneration of each of the two Board of Directors members consists of non-performance-related fixed remuneration (fixed salary component including non-cash benefit from private use of a company vehicle) and a variable component that in turn consists of a recognition bonus considered possible by the Supervisory Board as well as a short-term and a long-term performance-related component.

The employment contracts provide for non-performance-related fixed remuneration of EUR 382,000 a year for the CEO and EUR 306,000 a year for the second Board of Directors member. This is paid out in twelve equal monthly instalments. It includes a leased vehicle for business and private use for each member of the Board of Directors for the duration of their actual term in office.

In addition to the non-performance-related fixed remuneration, the company can also pay each of the Board of Directors members a voluntary annual recognition bonus that is capped at a certain amount. However, there is no legal entitlement to this bonus, even if it is repeatedly paid. The Supervisory Board determines whether and in what amount the recognition bonus is to be paid according to its best judgement based on the extent to which the business performance of PSI AG justifies this.

In addition to the recognition bonus, the employment contracts also provide for performance-related components, the amounts of which are determined by the Supervisory Board on the basis of the PSI Group's business performance. Each of the Board of Directors members is entitled to a variable amount of short-term performance-related remuneration that depends on the level of target achievement in a financial year in the categories of earnings before taxes, specific other key figures and specific strategic targets. These targets are defined in an annual target agreement concluded between the Supervisory Board and the respective Board of Directors member.

In November 2015, long-term performance-related remuneration was agreed with the Board of Directors members. Under certain conditions, this may also be paid out in the event of a change of control. The amount of this remuneration is dependent on a long-term increase in the stock market capitalisation of PSI AG above a certain threshold and on the cumulative development of the PSI Group's EBITA over the period from 1 January 2016 to 31 December 2018. This remuneration component will be paid out at the earliest in the 2019 financial year.

SUPPLEMENTARY REPORT

There were no significant events after the end of the reporting period.

RISK REPORT

The PSI Group's risk policy has the aim of securing the Group's success in the long term. This requires effective identification and analysis of business risks in order to eliminate or limit them by means of suitable control measures.

To this end, PSI has set up a risk management system that is used by the management of the company as a tool for the early recognition and prevention of risks. This particularly applies to risks whose effects could jeopardise the continued existence of the PSI Group as a going concern. The risk management tasks comprise risk identification, risk assessment, risk communication, risk management and control, risk documentation and risk system monitoring. The company's risk management system is developed further on an ongoing basis and the knowledge gained from the management system is integrated in corporate planning.

Description of the key features of the internal control and risk management system with regard to the Group accounting process (section 289 (5) and section 315 (2) no. 5 HGB)

The PSI Group's risk management system covers all organisational regulations and measures for identifying and dealing with the risks and opportunities of its business activities.

The Board of Directors has overall responsibility for the internal control and risk management system with regard to the accounting processes of the consolidated companies and the accounting process in the Group. The Accounting department prepares the consolidated financial statements for the PSI Group based on the recognised separate financial statements of the companies and reports consolidated financial information to the Board of Directors. The separate financial statements are prepared on the basis of a Group-wide accounting manual. All companies and divisions included in the consolidated financial statements are integrated by way of a clearly defined management and reporting organisation.

With regard to the accounting processes of the consolidated companies and the Group accounting process, we consider features of the internal control and risk management system to be material if they could have a significant impact on the Group accounting and the overall view presented in the consolidated financial statements including the Group management report. This particularly includes the following elements:

- identification of key risk areas and control areas relevant to the Group-wide accounting process
- controls for monitoring the Group-wide accounting process and its results at Board of Directors level and division level
- preventive control measures in the Finance and Accounting departments of the Group and the divisions and in operational, performance-related business processes that generate significant information for the preparation of the consolidated financial statements and the Group management report, including a separation of functions and predefined approval processes in relevant areas
- measures that ensure proper IT-based processing of facts and data relating to Group accounting
- in addition, the Group has implemented a risk management system with regard to the accounting process that includes measures to identify and assess significant risks and corresponding measures to limit risks in order to ensure the correctness of the consolidated financial statements

PSI has identified the following key risks and integrated them in its early warning system:

- market: too low level of new orders/order backlog
- employees: lack of availability of the necessary qualifications
- liquidity: bad payment terms and insufficient credit facilities
- costs and revenues: deviation from planning figures, particularly in project implementation or development

When assessing the risks, the individual categories are regularly regarded at business unit level. Depending on the risk assessment and the importance of the business unit for the Group, the Board of Directors intensifies the dialogue with the management of the business unit and resolves specific measures as required.

In the 2016 financial year, the risks were classified as not jeopardising the Group's continued existence as a going concern, neither individually nor in combination.

The risk management guideline governs the areas of:

- risk strategy: explicit principles for minimising the main risks and general risk management principles
- risk management organisation: responsibilities of the management levels and controllers involved
- risk identification, control and monitoring: tools for identifying risks and monitoring the key figures used
- risk management system: application of the Group-wide professional services automation (PSA) system and a Group-wide issue tracking solution

These provisions are supplemented by a guideline on risk management in projects. This governs the implementation of risk management in the project, the identification, recording, analysis and assessment of risks and the planning, specification and monitoring of measures to minimise risks in the context of projects. This particularly relates to measures to limit prefinancing in projects.

The professional services automation (PSA) solution has an integrated management information system (MIS) and serves as a uniform information and controlling tool for all levels of the Group. Regular MIS reports, which are generally prepared on a monthly basis, provide key figures from the divisions as defined in the guideline system:

- development of the order situation and capacity utilisation
- liquidity planning
- development of net asset situation and financial position
- forecast of key economic figures
- sales forecast and market development
- project controlling and contract management

Analysis of opportunities and risks

The PSI Group is exposed to a number of risks, including normal risks from its business operations, general economic risks, tax and financial risks, and risks that could arise from the shareholder structure. In the 2016 financial year, the risk profile changed mainly as a result of macroeconomic changes, particularly due to the slump in energy raw material prices in the first quarter and exchange rate fluctuations. There were no substantial changes in the risk profile with regard to the regional distribution of business, the shareholder structure or the regulatory environment in the energy sector.

Opportunities and risks for the segments

In **Energy Management**, PSI increased revenues and earnings in 2016. However, new orders did not reach the record level of the previous year. It was particularly the area of electricity grids that developed positively, while the gas and oil business weakened. In the short term, after the end of the regulatory base year of 2016, there could be a decline in investments in electrical distribution grids in Germany, while in the Gas and Oil division stabilising raw material prices provide the chance of a revival in demand. In the medium term, the separation of grid operation and conventional energy generation means growth opportunities for PSI. In the long term, the transnational effects of the expansion of renewable energy, the trend towards digitalisation, innovative energy services and the expansion of storage technologies will result in additional business potential, as investments will be required for these purposes. The expansion of international business is resulting in an increased need for prefinancing and guarantee credit.

By their nature, major export projects involve implementation risks in relation to local partners and their training, differing performance interpretations and standards and sometimes also changes in customer policy. The existing international partnerships extend the sales reach and thus increase the opportunities for sales of PSI's products. At the same time, they also create new dependencies.

In 2016, in **Production Management** PSI successfully concluded important pilot projects where the new product versions that had been migrated to the Group platform in the previous year were used for the first time. In Metal Production, PSI continued to roll out the PSI solution with important Group customers. Despite stabilisation in the global steel market, the risk of stronger price pressure due to cyclical fluctuations of the market and the raw material prices remains. Opportunities remain due to growing demand from large metal producers for group roll-outs of PSI solutions. In some countries of East Asia, the risk remains as a result of a not completely developed awareness for quality and trademark protection.

The Logistics and Production Control/ERP divisions are particularly affected by fluctuations in the economic climate on account of their market position and customer structure. For this reason, there is a risk that new orders may be too low in the event of a weak domestic economy. In the Logistics division, PSI is therefore primarily focusing on logistics solutions for complex requirements that are characterised by very short amortisation periods. The higher complexity results in project risks, but at the same time the new unique selling points enable PSI to tap particular business opportunities.

After the considerable turnaround in 2015, with its renewed product base the Logistics division was back on the growth track in 2016. The positive consumer climate, growth in online mail order business and the increasing complexity of industrial logistics flows will give rise to further growth potential for PSI's logistics solutions in the short and medium term. The production software subsidiary PSI Automotive & Industry is increasingly focusing on the growth trend Industry 4.0 and is continuing its Chinese market entry. After the conclusion of the first pilot phase, PSI Automotive & Industry received the order from a large Chinese rolling stock manufacturer to implement the second roll-out phase of a planning-execution-control solution in further business areas. This creates further growth potential on the one hand, but also results in implementation risks, particularly in export business.

PSI Mines&Roads, which entered the Chinese market in the past few years with two large orders for control centres to manage raw material extraction, successfully concluded a pilot project. In the long term, these two references will give rise to further good export opportunities for the new solution, but in the short term there is a risk that the level of investments may be very low on account of the price situation in the raw material sector.

In **Infrastructure Management**, transport systems recorded lower revenues, but achieved a year-on-year increase in new orders and earnings. In this area, PSI is largely dependent on the financial situation of its predominantly public-sector clients. Over the last few years, PSI has developed unique selling points and consolidated its market position, particularly for depot management systems. As a result of the increasing deployment of electric vehicles in local public transport, this means there is growth potential in the shape of new functions such as range management and charging management. PSI Poland, which is assigned to the Infrastructure Management segment, won a large follow-up order from a Polish local transport company.

With the PSI Incontrol Group, PSI has had direct access to the markets in Southeast Asia, India and the Middle East since 2009. PSI has access to inexpensive hardware and integration services. The cost of services and equipment can be reduced by using a relatively large pool of qualified specialists in the region. As a result of the high share of system integration business and the associated need to prefinance projects, business at PSI Incontrol also entails risks. In 2016, capacity in the capital-intensive hardware business was scaled back, thus limiting future risk. At the same time, a push was made to develop the software business, which is less strongly impacted by fluctuations in the economic cycle.

Opportunities and risks of internationalisation

The share of international activities declined slightly in 2016, as revenues developed positively in Germany, while export business declined. Overall, the export share of 45% indicates that PSI has only a limited dependency on the domestic market and that there are further international growth opportunities. However, the expansion will give rise to new risks from the integration of new subsidiaries into the Group and dependency on international partners, exchange rates and legal systems. On the other hand, opportunities and risks will be more broadly diversified as a result of the further expansion of international activities.

Opportunities and risks from new products and technologies

In order to strengthen its competitive position, PSI constantly invests in new product versions and product enhancements. At the same time, PSI has brought products and components together on a joint platform as part of a Group-wide convergence process to enable it to benefit from high quantities. The future income and liquidity development of the PSI Group will largely depend on the market success of its new products and on its command of newly developed technologies.

Risks from the shareholder structure

If attendance of the Annual General Meeting is considerably below 100%, there is a risk that one of the major shareholders of PSI AG may exercise decisive influence on the Annual General Meeting and use this for its own interests, which may differ from the company's aims. The same risk arises if there is high attendance at the Annual General Meeting but major shareholders coordinate their voting.

Tax risks

PSI cannot rule out the risk that external audits by the taxation authorities may lead to subsequent tax claims for which the company has not recognised provisions or that result in an unforeseen liquidity requirement. Currently there is a tax audit for the years 2010 to 2013 for which the result is pending.

The tax audit for the years 2005 to 2009 determined that the short-term ownership and the resulting possible allocation of a total of 28.60% of the voting right shares in the company by Kajo Neukirchen GmbH, Eschborn, and Mr. Kajo Neukirchen in the second quarter of 2009 resulted in the loss of 25.65% of the eligible tax loss carryforwards. Based on an order for reference submitted to the German Federal Constitutional Court by the Hamburg Fiscal Court, the Board of Directors believes that there is a chance that the underlying law is unconstitutional. If this is the case, then there is no detrimental acquisition of shares and the tax loss carryforwards therefore were not lost on a pro rata basis.

Financial risks

To finance its operating business, PSI uses instruments that chiefly consist of trade receivables, cash and cash equivalents, liabilities to banks and guarantees. The main risks in this context are credit risks, liquidity risks and fair value risks. Credit risks and liquidity risks are managed by using credit facilities and monitoring procedures. There is no concentration of credit risk for PSI with individual counterparties or with a group of counterparties. The Group endeavours to ensure that it has sufficient liquidity and credit facilities to meet its obligations.

The PSI Group predominantly enters into transactions concluded in euro. In the 2016 financial year, the Group did not use any transactions to hedge currency risks.

Employees

With technically challenging tasks, we succeed in hiring, integrating and permanently retaining qualified employees at our company. Our staff turnover rate is low. The remuneration structure includes performance- and earnings-related components. Following the freezing of the pension provisions as at the end of 2006, all future benefits are specified, direct salary components.

Future risks

PSI's strategy for the coming years is focused on the Group's further transformation into a software product provider and on ongoing internationalisation. If this does not succeed as planned, there is a risk that the PSI Group may not achieve its revenues and earnings targets. In addition, PSI would then still be dependent to a large extent on the general economic development and regulatory framework in Germany.

FORECAST

PSI started the new year with stable order backlog of EUR 129 million and a product base that has been further renewed. Despite high expenses for research and development, there was an improvement in operating result. With the conclusion of numerous product migrations and pilot projects, the conditions were created for a broader-based marketing of the new product versions to existing and new customers.

The trend towards digitalisation of business processes in energy supply, production and logistics continued in 2016 and provides additional business potential in the years ahead. In 2017, PSI will benefit particularly in the Automotive, Mechanical Engineering and Logistics divisions, in which considerable investments have been made in the product base in recent years. In the Electric Energy division, PSI will focus more strongly on exports in 2017, driven by the fact that the end of the regulatory base year is likely to result in a decline in IT investments in German distribution grids. Despite the fact that raw material prices have stabilised, the upturn in demand in the Gas and Oil division is only slow. In Infrastructure Management, we anticipate stable investment activities with moderate increases in Germany and Europe and a restrained development in Southeast Asia. Particularly in Production Management, we want to leverage the positive impulses in 2017, generating further growth and widening the base of our business.

In continuing our strategy of specialisation and internationalisation, our focus has increasingly shifted from energy-producing countries to industrialised consumer countries as a result of the decrease in raw material prices. Consequently, we are aiming for further growth in Northern Europe and North America in particular over the coming years.

By means of the migration of further products to the new, uniform software platform and convergence of our technical base, we intend to further increase the quantities sold and expand the share of revenues attributable to licences, upgrades and maintenance. We will continue to selectively expand our portfolio in order to take advantage of opportunities and increase our efficiency. In this way, we will improve the basis for enabling us to generate double-digit returns in the future.

In the Energy Management segment, we anticipate a continued positive trend for Electrical Energy in 2017 and, in the event that oil and gas prices remain low, a sideways movement in this business area. In Production Management, we are continuing to invest in the future-oriented topic of Industry 4.0 and intend to increase our revenues and profitability further with the renewed product base. In Infrastructure Management, we anticipate a slight increase in Europe and stabilisation in Southeast Asia. Overall, in 2017 we are aiming for a mid-single-digit percentage increase in consolidated revenues, an improvement in the EBIT margin and operating result of between EUR 12 million and EUR 15 million. Due to the ongoing risks in some export regions, we deem a forecast corridor appropriate. We are also aiming for a slight increase in licence and maintenance revenues, with our focus here remaining on long-term maintenance and upgrade agreements and less on licences. In order to achieve our goals, we will continue to invest in the unique selling points and quality of our products and the efficiency of our internal processes.

Berlin, 10 March 2017

Dr. Harald Schrimpf   Harald Fuchs

CONSOLIDATED BALANCE SHEET

dated 31 December (IFRS)

ASSETS in EUR thousand	Note	**31.12.2016**	31.12.2015
Non-current assets			
Property, plant and equipment	C. 1	12,153	12,214
Intangible assets	C. 1	57,751	59,418
Investments in associates	C. 2	150	149
Deferred tax assets	C. 13	8,663	6,999
		78,717	**78,780**
Current assets			
Inventories	C. 3	6,421	4,184
Net trade receivables	C. 4	27,466	36,169
Receivables from long-term development contracts	C. 5	38,184	36,366
Other assets	C. 6	5,631	5,192
Cash	C. 7	43,008	38,831
		120,710	**120,742**
		199,427	**199,522**

EQUITY AND LIABILITIES in EUR thousand	Note	**31.12.2016**	31.12.2015
Shareholders' equity			
Share capital	C. 8	40,185	40,185
Capital reserves	C. 8	35,137	35,137
Reserve for treasury shares		– 528	– 1,193
Other reserves		– 17,588	– 13,771
Unappropriated surplus		18,068	12,794
		75,274	**73,152**
Non-current liabilities			
Financial liabilities	C. 10	0	83
Pension provisions and similar obligations	C. 9	52,037	46,981
Deferred tax liabilities	C. 13	2,916	1,963
		54,953	**49,027**
Current liabilities			
Trade payables		12,553	14,929
Other liabilities	C. 12	30,919	30,221
Liabilities from long-term development contracts	C. 5	25,728	28,819
Financial liabilities	C. 11	0	3,374
		69,200	**77,343**
		199,427	**199,522**

CONSOLIDATED INCOME STATEMENT

for the business year (IFRS)

in EUR thousand	Note	**2016**	2015
Revenues	D. 14	176,854	183,682
Other operating income	D. 15	5,017	5,490
Cost of materials	D. 16	– 26,210	– 31,596
Personnel expenses	D. 17	– 109,269	– 106,820
Amortisation and depreciation	D. 18	– 4,294	– 4,286
Other operating expenses	D. 19	– 30,263	– 35,361
Operating result		**11,835**	**11,109**
Net finance costs	D. 20	– 602	– 1,671
Earnings before taxes		**11,233**	**9,438**
Income taxes	C. 13	– 2,682	– 1,979
Group net result		**8,551**	**7,459**
Consolidated earnings per share in EUR (basic and diluted)	D. 21	0.55	0.48
Average number of shares outstanding (in thousands)	D. 21	15,618	15,620

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for the business year (IFRS)

in EUR thousand	**2016**	2015
Group net result	**8,551**	**7,459**
Items that are reclassified to consolidated net profit in subsequent periods		
Currency translation of foreign operations	**– 316**	**– 2,029**
Items that are not reclassified to consolidated net profit in subsequent periods		
Actuarial losses	– 4,986	– 381
Income tax effects	1,485	112
	– 3,501	**– 269**
Other comprehensive income after taxes	**– 3,817**	**– 2,298**
Consolidated total comprehensive income	**4,734**	**5,161**

CONSOLIDATED CASH FLOW STATEMENT

for the business year (IFRS)

in EUR thousand	Note	2016	2015
1. Cash flow from operating activities			
Consolidated earnings before income taxes		**11,233**	**9,438**
Adjustment of annual earnings for non-cash transactions			
Amortisation of intangible assets		1,909	1,734
Depreciation of property, plant and equipment		2,385	2,552
Income from investments in associates		– 146	– 140
Interest income		– 209	– 65
Interest expense		1,223	1,344
Other non-cash income/expenses		688	4
		17,083	**14,867**
Change in inventories	C. 3	– 2,156	– 638
Change in trade receivables and receivables from long-term development contracts	C. 4 / C. 5	6,636	925
Change in other assets	C. 6	– 452	– 55
Change in provisions	C. 9	– 1,206	– 1,398
Change in trade payables		– 2,290	– 18
Change in other liabilities	C. 12	– 2,245	3,155
		15,370	**16,838**
Interest paid		– 150	– 272
Income taxes paid		– 1,885	– 2,556
		13,335	**14,010**
2. Cash flow from investing activities			
Outflows for investments in intangible assets		– 892	– 1,241
Outflows for investments in property, plant and equipment		– 2,336	– 1,820
Outflows/inflows for investments in subsidiaries (less cash and cash equivalents acquired)	B. 19	– 1	659
Inflows from distributions by associated companies		108	103
Interest received		209	65
		– 2,912	**– 2,234**
3. Cash flow from financing activities			
Outflows for the acquisition of treasury shares	C. 8	0	– 303
Dividends paid to shareholders of the parent	C. 8	– 3,277	0
Inflows/outflows from the repayment/borrowing of financial liabilities	C. 11	– 3,457	– 1,813
		– 6,734	**– 2,116**
4. Cash and cash equivalents at end of period			
Cash-effective change in cash and cash equivalents		3,689	9,660
Exchange-rate-related changes in cash and cash equivalents		488	– 143
Cash and cash equivalents at beginning of period		38,831	29,314
	C. 7	**43,008**	**38,831**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 31 December (IFRS)

in EUR thousand	Share capital	Capital reserves	Reserve for treasury shares
Balance as at 31 December 2014	**40,185**	**35,137**	**– 890**
Group net result			
Other comprehensive income after taxes			
Consolidated total comprehensive income after taxes			
Acquisition of treasury shares			– 303
Total capital transactions	0	0	– 303
Balance as at 31 December 2015	**40,185**	**35,137**	**– 1,193**
Group net result			
Other comprehensive income after taxes			
Consolidated total comprehensive income after taxes			
Dividend payment to shareholders of the parent			
Issue of treasury shares			665
Total capital transactions	0	0	665
Balance as at 31 December 2016	**40,185**	**35,137**	**– 528**

CONSOLIDATED SEGMENT REPORTING

for the business year (IFRS)

	Energy Management		Production Management	
in EUR thousand	31.12.2016	31.12.2015	31.12.2016	31.12.2015
REVENUES				
Revenues with third parties	69,215	67,233	84,167	86,387
Revenues with other segments	781	1,771	2,122	1,892
Total revenues	**69,996**	**69,004**	**86,289**	**88,279**
Segment result before amortisation and depreciation	**7,505**	**6,840**	**8,907**	**8,038**
Segment result before amortisation and depreciation from purchase price allocation	**5,868**	**5,350**	**7,747**	**6,740**
Amortisation and depreciation from purchase price allocation	– 85	– 85	– 643	– 559
Segment operating result	**5,783**	**5,265**	**7,104**	**6,181**
Net finance costs	77	– 214	– 496	– 836
Segment result	**5,860**	**5,051**	**6,608**	**5,345**

Other reserves	Unappropriated surplus/ cumulative loss	**Total**
– 11,473	**5,335**	**68,294**
	7,459	7,459
– 2,298		– 2,298
– 2,298	**7,459**	**5,161**
		– 303
0	0	– 303
– 13,771	**12,794**	**73,152**
	8,551	8,551
– 3,817		– 3,817
– 3,817	**8,551**	**4,734**
	– 3,277	– 3,277
	0	665
0	– 3,277	– 2,612
– 17,588	**18,068**	**75,274**

	Infrastructure Management		Reconciliation		PSI Group	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	23,472	30,062	0	0	176,854	183,682
	5,623	6,219	– 8,526	– 9,882	0	0
	29,095	**36,281**	**– 8,526**	**– 9,882**	**176,854**	**183,682**
	822	**1,630**	**– 1,105**	**– 1,113**	**16,129**	**15,395**
	133	**836**	**– 1,185**	**– 1,173**	**12,563**	**11,753**
	0	0	0	0	– 728	– 644
	133	**836**	**– 1,185**	**– 1,173**	**11,835**	**11,109**
	– 183	– 621	0	0	– 602	– 1,671
	– 50	**215**	**– 1,185**	**– 1,173**	**11,233**	**9,438**

DEVELOPMENT OF FIXED ASSETS

for the business year (IFRS)

2015 in EUR thousand	Costs 1.1.2015	Exchange differences	Additions	Disposals	**31.12.2015**
Intangible assets					
Other intangible assets	23,882	– 3	669	381	24,167
Goodwill	53,258	– 1,441	0	0	51,817
Capitalised software development costs	1,519	0	426	0	1,945
	78,659	**– 1,444**	**1,095**	**381**	**77,929**
Property, plant and equipment					
Land and buildings	18,079	– 51	63	0	18,091
Computers and computer accessories	13,889	– 11	1,260	6	15,132
Other equipment, operating and office equipment	7,383	– 198	498	15	7,668
	39,351	**– 260**	**1,821**	**21**	**40,891**
Financial assets					
Investments in associates	149	0	0	0	149
	149	**0**	**0**	**0**	**149**
	118,159	**– 1,704**	**2,916**	**402**	**118,969**

DEVELOPMENT OF FIXED ASSETS

for the business year (IFRS)

2016 in EUR thousand	Costs 1.1.2016	Exchange differences	Additions	Disposals	**31.12.2016**
Intangible assets					
Other intangible assets	24,167	4	373	338	24,206
Goodwill	51,817	– 645	0	0	51,172
Capitalised software development costs	1,945	0	519	0	2,464
	77,929	**– 641**	**892**	**338**	**77,842**
Property, plant and equipment					
Land and buildings	18,091	– 3	225	2	18,311
Computers and computer accessories	15,132	2	1,464	1,000	15,598
Other equipment, operating and office equipment	7,668	7	517	397	7,795
Advance payments	0	0	130	0	130
	40,891	**6**	**2,336**	**1,399**	**41,834**
Financial assets					
Investments in associates	149	0	1	0	150
	149	**0**	**1**	**0**	**150**
	118,969	**– 635**	**3,229**	**1,737**	**119,826**

	Accumulated amortisation/depreciation					Carrying amounts	
	1.1.2015	Exchange differences	Additions	Disposals	**31.12.2015**	**31.12.2015**	31.12.2014
	14,572	1	1,510	381	15,702	8,465	9,310
	2,258	0	0	0	2,258	49,559	51,000
	327	0	224	0	551	1,394	1,192
	17,157	**1**	**1,734**	**381**	**18,511**	**59,418**	**61,502**
	9,871	– 51	442	0	10,262	7,829	8,208
	11,201	– 11	1,411	5	12,596	2,536	2,688
	5,330	– 198	699	12	5,819	1,849	2,053
	26,402	**– 260**	**2,552**	**17**	**28,677**	**12,214**	**12,949**
	0	0	0	0	0	149	149
	0	**0**	**0**	**0**	**0**	**149**	**149**
	43,559	**– 259**	**4,286**	**398**	**47,188**	**71,781**	**74,600**

	Accumulated amortisation/depreciation					Carrying amounts	
	1.1.2016	Exchange differences	Additions	Disposals	**31.12.2016**	**31.12.2016**	31.12.2015
	15,702	5	1,585	334	16,958	7,248	8,465
	2,258	0	0	0	2,258	48,914	49,559
	551	0	324	0	875	1,589	1,394
	18,511	**5**	**1,909**	**334**	**20,091**	**57,751**	**59,418**
	10,262	– 2	446	2	10,704	7,607	7,829
	12,596	0	1,353	985	12,964	2,634	2,536
	5,819	1	586	393	6,013	1,782	1,849
	0	0	0	0	0	130	0
	28,677	**– 1**	**2,385**	**1,380**	**29,681**	**12,153**	**12,214**
	0	0	0	0	0	150	149
	0	**0**	**0**	**0**	**0**	**150**	**149**
	47,188	**4**	**4,294**	**1,714**	**49,772**	**70,054**	**71,781**

CONSOLIDATED

Notes to the consolidated financial statements

PSI Aktiengesellschaft für Produkte und Systeme der Informationstechnologie, Berlin, as at 31 December 2016

A. GENERAL INFORMATION ON THE COMPANY

The parent company 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 with the number HRB 51463.

The Board of Directors prepared the consolidated financial statements as at 31 December 2016 and the Group management report for the 2016 financial year on 10 March 2017 and then approved them for submission to the Supervisory Board.

The business operations of the PSI Group comprise the development and sale of software systems and products that meet the specific needs and requirements of customers chiefly operating in the following industries and service sectors, energy supply, production, infrastructure, software technology, internet applications and business consultancy. In addition, the PSI Group performs services of all kinds in the field of data processing, sells electronic equipment and runs data processing systems.

The PSI Group is divided into three main business areas (segments), Energy Management, Production Management and Infrastructure Management.

The company is publicly listed in the Prime Standard on the German stock exchange in Frankfurt am Main (securities identification number (WKN), A0Z1JH).

B. PRESENTATION OF ACCOUNTING POLICIES AND FINANCIAL RISK MANAGEMENT METHODS

Basis of preparation of the financial statements

The consolidated financial statements of the PSI Group are generally prepared on the basis of the historical cost principle, with the exception of derivative financial instruments and available-for-sale financial assets, which are recognised at fair value.

The consolidated financial statements of the PSI Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU. The consolidated financial statements were prepared in euro. Unless specified otherwise, all figures are rounded up or down to the nearest thousand euro in line with commercial rounding.

Changes in accounting policies

The accounting policies applied in the 2016 financial year generally correspond to those applied in the previous year.

Effects of new accounting requirements

At the beginning of the financial year, IAS 1 "Presentation of Financial Statements" was required to be applied by the PSI Group for the first time. The application of the new standard resulted in minor changes in the notes.

The IASB has published the following standards and interpretations that were not yet required to be applied in the 2016 financial year. These standards and interpretations are not being applied early by the Group,

On 24 July 2014, the IASB published the final standard IFRS 9 “Financial Instruments” (IFRS 9 [2014]), which incorporates the results of all phases of the IFRS 9 project and supersedes both IAS 39 “Financial Instruments, Recognition and Measurement” and all earlier versions of IFRS 9 “Financial Instruments”. The standard includes new regulations on classification and measurement, impairment and hedge accounting. IFRS 9 is to be applied for the first time for the financial year beginning on or after 1 January 2018. The effects of these new regulations are being analysed by the Group. Based on the current status of this analysis, no significant effects on the net assets, financial position and results of operations are anticipated.

IFRS 15 was published in May 2014 is to be applied for the first time for the financial year beginning on or after 1 January 2018. Earlier application is permitted. The standard is to be applied retrospectively. The standard introduces a new model for revenues recognition with five analysis steps that is to be applied to all revenues from contracts with customers. The key principle of the standard is that an entity must recognise revenues at the time of the transfer of goods or services to customers and in the amount of the consideration that the entity can expect in return for the transfer of these goods or services. The principles in IFRS 15 provide a structured approach for the measurement and recognition of revenues. The scope of the standard extends to all types of sectors and companies and therefore supersedes all existing provisions relating to revenues recognition (IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC 31 “Revenue – Barter Transactions Involving Advertising Services”). The application of the new standard requires more estimates and judgements than the currently applicable standards on revenues recognition, since the amount of revenues to be recognised is determined by the amount of the consideration that the entity can expect in return for the transfer of the goods or services. Particular challenges may arise when the consideration in question is variable.

Based on the detailed analysis performed in the financial year, the PSI Group arrived at the following assessment:

- As a result, the timing of revenues recognition for individual performance obligations could be affected by the transition to IFRS 15. The preliminary result of the analysis shows that proprietary licences, hardware and associated integration services contributed under long-term project contracts together represent a combined performance obligation in accordance with IFRS 15. Proprietary licences, hardware and services represent input factors for producing a contractually owed combined output. This largely corresponds to the previous method of revenues recognition in accordance with IAS 11/IAS 18.
- In addition, the PSI Group arrived at the preliminary assessment that the vast majority of services under long-term project contracts that are currently accounted for using the percentage-of-completion method meet the requirement for period-based recognition. As part of the projects, an asset is created that does not have any alternative use (IFRS 15.35 c); while performing services, the PSI Group is legally entitled to payment for the services already performed. This is not expected to result in any significant effects compared to the previous method.
- The PSI Group grants warranties in its ordinary course of business. These often represent an assurance for the customer that the services in question will conform to the contractually agreed specifications after acceptance. As before, these warranties will be accounted for in accordance with IAS 37. Occasionally, an extension of the usual warranty period is agreed with individual customers. Such extended warranties will in future be recognised using a period-based method over the period for which they are granted beyond the usual warranty period. The PSI Group does not currently anticipate any significant effects, as these extended warranties are often already priced individually and recognised using a period-based method.

In January 2016, the IASB published the new standard IFRS 16 on accounting for leases. IFRS 16 introduces a single lessee accounting model. As a result, previously unrecognised leases must be recognised in the future. IFRS 16 requires additional disclosures in the notes for both lessees and lessors. IFRS 16 applies for the first time to financial year beginning on or after 1 January 2019. Earlier application is permitted on the condition that IFRS 15 “Revenue from Contracts with Customers” is already applied or is applied at the same time as IFRS 16. The standard has not yet been adopted by the EU. Because the PSI Group is a lessee, the application of the new standard will result in an increase in total assets, as operating leases will have an impact on the accounting in future. However, the exact scope of the effects, including the effect on the income statement, has yet to be determined. Total undiscounted future lease expenses as at 31 December 2016 amounted to EUR 19,977 thousand (employees table, page 80).

The IASB and the IFRS IC published further pronouncements in the year under review. The standards and pronouncements required to be applied for the first time in the financial year did not have any significant effects on the consolidated financial statements of the PSI Group.

Significant judgements, estimates and assumptions

In preparing the consolidated financial statements, the management makes judgements, estimates and assumptions that affect the amount of reported income, expenses, assets and liabilities and the associated disclosures as well as the disclosure of contingent liabilities.

In applying the Group's accounting policies, the management did not make any significant judgements that have a significant impact on the amounts in the consolidated financial statements.

The main assumptions regarding the future and other major sources of estimation uncertainty at the end of the reporting period that entail a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group's assumptions and estimates are based on parameters that were available when the consolidated financial statements were prepared. However, these situations and the assumptions regarding future developments may change as a result of market trends and market conditions that are beyond the control of the Group. Such changes are not taken into account in the assumptions until they occur.

Impairment of non-current assets

The PSI Group tests non-current assets for impairment once a year based on the provisions of IAS 36. The impairment tests are based on the future surplus cash generated for individual assets or for groups of assets combined in cash-generating units. An asset or a cash-generating unit is impaired if its carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Value in use is calculated using a discounted cash flow method. The recoverable amount depends on the discount rate used when applying the discounted cash flow method as well as on the expected future cash inflows and the growth rate used for extrapolation purposes. Significant non-current assets that are tested for impairment on an annual basis relate to the goodwill reported in the PSI Group. Further details with regard to impairment testing can be found in section C. 1 of the notes. The carrying amount of the goodwill tested for impairment amounted to EUR 48,914 thousand as at 31 December 2016 (previous year: EUR 49,559 thousand, see disclosures on goodwill and property, plant and equipment, page 67).

Project valuation

The PSI Group recognises revenues on the basis of estimated performance in the projects. Performance estimates are based on an estimated hourly volume and estimated costs for purchased services or on contractually agreed milestones and are continuously updated. Further details on the income recognised for projects but not yet invoiced are provided in section C. 5 of the notes. Recognised partial profits amounted to EUR 15,963 thousand as at 31 December 2016 (previous year: EUR 12,537 thousand).

Deferred taxes

Deferred tax assets are recognised for all unused tax loss carryforwards and temporary differences to the extent that it is probable or there is convincing evidence that taxable income will be available for this purpose, meaning that the loss carryforwards can actually be used. Parts of the deferred tax assets also arose in the financial years 2008 to 2015 as a result of internal restructuring within the Group (asset deals). To determine the amount of the deferred tax assets, the management must make an estimate based on the expected timing and amount of future taxable income and on the future tax planning strategy (timing of tax results, taking account of tax risks, etc.). As at 31 December 2016, the amount of non-capitalised tax benefits from loss carryforwards came to EUR 47.9 million (previous year: EUR 48 million). No deferred tax assets have been accrued for these tax losses. Deferred tax assets attributable to temporary differences amounted to EUR 8,663 thousand as at 31 December 2016 (previous year: EUR 6,999 thousand), while deferred tax liabilities amounted to EUR 2,916 thousand (previous year: EUR 1,963 thousand). Further details are presented in section C. 13 of the notes.

Pensions and other post-employment benefits

The expenses from post-employment defined benefit plans and the present value of the pension liability are determined using actuarial calculations. The actuarial valuation is based on assumptions relating to discount rates, the expected retirement age, future increases in wages and salaries, mortality, and future pension increases. In view of the long-term nature of these plans, such estimates are subject to significant uncertainties. All assumptions are reviewed at the end of each reporting period. The management determines an appropriate discount rate based on the interest rates of corporate bonds that are denominated in the same currency as the post-employment benefit obligation and have a rating of at least AA from an internationally recognised rating agency. Where necessary, these interest rates are adjusted to the expected duration of the defined benefit obligation by way of extrapolation along the yield curve. The provision for pensions and similar obligations amounted to EUR 52,037 thousand as at 31 December 2016 (previous year: EUR 46,981 thousand). In the financial year under review, the management made a change to an estimate. Further details can be found in section C. 9 of the notes.

Development costs

Development costs are capitalised using the accounting policy described on page 60 (research and development costs, property, plant and equipment). Initial capitalisation of the costs is based on the management's assessment that technical and commercial viability is demonstrated. For the purposes of determining the amounts to be capitalised, the management makes assumptions with regard to the amount of expected future cash flows from the project. The carrying amount of capitalised development costs amounted to EUR 1,589 thousand as at 31 December 2016 (previous year: EUR 1,394 thousand).

Principles of consolidation

a) Subsidiaries

The financial statements of the Group comprise PSI AG and the companies it controls as at 31 December 2016. The consolidated financial statements include PSI AG and its subsidiaries over which it exercises control as defined in IFRS 10. PSI AG controls an investee when it has direct or indirect power over the investee, is exposed to variable returns from the investee and has the ability to affect the investee's variable returns through its power over it.

Company acquisitions are accounted for using the acquisition method in accordance with IFRS 3. Companies acquired or sold during the financial year under review are included in the consolidated financial statements starting from the date of the acquisition or sale.

The excess of the cost of an acquisition over the interest in the fair value of the identifiable assets and liabilities acquired as at the date of the acquisition transaction is referred to as goodwill and recognised as an asset. The identifiable assets and liabilities recognised are measured at their fair values as at the acquisition date.

There were no changes in the 2016 financial year with regard to the fully consolidated companies.

In addition to PSI AG, the following companies were included in the consolidated financial statements:

- PSI Automotive & Industry GmbH (“PSI AI”) (formerly, PSIPENTA Software Systems GmbH)
- PSI Logistics GmbH (“PSI Logistics”)
- PSI Nentec GmbH (“Nentec”)
- PSI Metals GmbH (“PSI Metals”)
- PSI Transcom GmbH (“PSI Transcom”)
- PSI AG für Produkte und Systeme der Informationstechnologie, Switzerland (“PSI AG/CH”)
- PSI Mines&Roads GmbH (“PSI Mines&Roads”)
- PSI Energy Markets GmbH (“PSI Energy”)
- PSI CNI Control Networks & Information Management GmbH, Austria (“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”)
- PSI METALS INDIA PRIVATE LTD., India (“PSI Metals India”)
- PSI Incontrol Sdn. Bhd., Malaysia (“PSI Incontrol”) as the holding company of the following companies (hereafter collectively referred to as the “PSI Incontrol Group”),
  a) PSI Incontrol Private Ltd., India
  b) Incontrol Tech For Shares SPC, Bahrain
  c) Incontrol Tech Holding Thailand Ltd., Thailand
  d) Incontrol Tech (Thailand) Ltd., Thailand
  e) PSI Incontrol ANZ Pty Ltd., Australia
- 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”)
- PSI Metals UK Ltd., UK (“PSI Metals UK”) (formerly, Broner Metals Solutions Ltd.)
- OOO OREKHsoft, Russia (“OREKHsoft”)

b) Associated companies

An associated company as defined in IAS 28 is a company in which the PSI Group directly or indirectly holds 20% or more of the voting rights and over which the Group has significant influence. Investments in associated companies are accounted for using the equity method. In accordance with the equity method, investments in an associated company are recognised in the balance sheet at their acquisition cost plus changes in the Group’s share of the associated company’s net assets that occurred after the acquisition. The consolidated income statement includes the share of the associated company’s profit or loss attributable to the Group. Changes reported directly in the associated company’s equity are recognised by the Group in the amount of its share are presented in the statement of changes in equity where appropriate. Unrealised gains and losses from transactions between the Group and the associated company are eliminated in line with the share in the associated company.

The investments in the following associated companies are measured using the equity method:

- caplog-x GmbH, Leipzig (“caplog-x”)
- Gazavtomatika dispetcherskije sistemy, Russia (since 26 December 2016)

c) Consolidation measures and uniform measurement throughout the Group

The annual financial statements of the subsidiaries and associated companies included in the consolidated financial statements are based on uniform accounting standards and reporting periods/reporting dates.

Intragroup balances and transactions and resulting intragroup gains and unrealised gains and losses between consolidated companies were eliminated in full. Unrealised losses were eliminated only if the transactions did not provide evidence of an impairment of the asset transferred.

Fair value measurement

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. In a fair value measurement, it is assumed that the transaction in which the asset is sold or the liability is transferred takes place either in the

- principal market for the asset or liability or
- the most advantageous market for the asset or liability, if there is no principal market.

The Group must have access to the principal market or to the most advantageous market. The fair value of an asset or liability is measured based on the assumptions that the market participants would make when fixing a price for the asset or liability, assuming that the market participants act in their best economic interests. Measurements of the fair value of a non-financial asset take account of the market participant's ability to generate economic benefits from the highest and best use of the asset or from its sale to another market participant that finds the best use for the asset. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available for measuring the fair value. In doing so, the use of relevant observable inputs is to be maximised and the use of unobservable inputs is to be minimised.

All assets and liabilities whose fair value is determined or reported in the financial statements are classified in the fair value hierarchy described below based on the lowest-level input that is significant to the entire fair value measurement:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Valuation methods in which the lowest-level input that is significant to the entire fair value measurement is directly or indirectly observable on the market
- Level 3 – Valuation methods in which the lowest-level input that is significant to the entire fair value measurement is not observable on the market

In the case of assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether there have been any transfers between the levels of the hierarchy by reviewing the classification at the end of each reporting period.

Currency translation

PSI's consolidated financial statements are prepared in euro, the functional currency and presentation currency of the Group. Each company within the Group determines its own functional currency. The items included in the respective company's financial statements are measured using this functional currency. Foreign currency transactions are initially translated at the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the closing rate. All associated exchange differences are recognised in the net profit or loss for the period. Non-monetary items of the Group balance sheet in foreign currencies are updated at historical exchange rates.

The functional currency of the main foreign companies, such as PSI AG/CH, PSI Poland, PSI Russia, the PSI Incontrol Group companies, PSI Metals Brazil, PSI Metals UK, PSI Metals NA and PSI China, is generally the respective local currency. As at the end of the reporting period, the assets and liabilities of these subsidiaries are translated into the presentation currency of PSI AG (the euro) at the closing rate. Income and expenses are translated at the exchange rate on the date of the transaction. The exchange differences that arise on translation are recognised as a separate component of equity.

Non-current assets

a) Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the company and if the cost of the asset can be measured reliably. For the purposes of subsequent measurement, intangible assets are recognised at cost less accumulated amortisation and accumulated impairment losses (reported under amortisation and depreciation). The amortisation period and the amortisation method are reviewed at the end of each financial year.

Intangible assets comprise:

Goodwill

Goodwill from a business combination is initially measured at cost, which is calculated as the excess of the cost of the business combination over the PSI Group's interest in the fair values of the identifiable assets acquired and the identifiable liabilities and contingent liabilities assumed. After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment at least once a year or when facts or changes in circumstances indicate that its carrying amount may have decreased. To check whether goodwill acquired in a business combination is impaired, this goodwill must be allocated to a cash-generating unit. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment loss must be recognised. Reversals of impairment losses are not recognised.

Industrial property rights and licences

Amounts paid to purchase industrial property rights and licence rights are capitalised and subsequently amortised on a straight-line basis over their expected useful lives (three to eight years).

The acquisition cost of new software is capitalised and treated as an intangible asset, provided it does not constitute an integral part of the related hardware. Software is amortised on a straight-line basis over a period of three to five years.

Costs incurred to restore or maintain the future economic benefits that the company had originally expected are recognised as an expense.

Research and development costs

Research costs are recognised as an expense in the period in which they are incurred. Development costs for an individual project are capitalised as an intangible asset only if the criteria for capitalisation under IAS 38.57 are met, i.e. if the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset
- the intention to complete the intangible asset and the ability to use or sell it
- how the asset will generate future economic benefits
- the availability of resources for completing the asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

After their initial recognition, development costs are accounted for at cost less accumulated impairment losses. The amortisation period generally lasts five years, beginning when the development phase is completed and as soon as the asset is available for use. The asset is amortised over the period during which future use is expected and this amortisation is recognised under amortisation and depreciation. During the development phase, an impairment test is performed on an annual basis.

b) Property, plant and equipment

Property, plant and equipment is measured at cost less any accumulated depreciation and any accumulated impairment losses. For property, plant and equipment acquired as part of business combinations, cost corresponds to the fair value at the acquisition date. If items of property, plant and equipment are sold or scrapped or if no further economic benefit is expected from their use, then the corresponding cost and accumulated depreciation are derecognised. Any realised gain or loss on disposal is reported in the consolidated income statement.

The cost of an item of property, plant and equipment comprises the purchase price including the costs necessary to bring the item into condition for its intended use. Subsequent expenses such as servicing and maintenance costs that arise after the fixed assets have started being used are recognised as an expense when incurred. If it is likely that expenses will result in the company receiving future economic benefits in excess of the originally assessed performance of the existing asset, these expenses are capitalised as additional costs of property, plant and equipment.

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

Buildings	25 to 50 years
Exterior facilities, other constructions	10 to 20 years
Computer hardware	3 to 4 years
Leasehold improvements	Based on remaining term of the lease or actual useful life if shorter
Other office equipment	5 to 13 years

The useful lives and depreciation method for property, plant and equipment are reviewed on an annual basis to ensure that the depreciation method and depreciation period are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

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

Non-current assets are tested for impairment when facts or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the first step of the impairment test, the recoverable amount of the asset or cash-generating unit must initially be determined. This is defined as the higher of fair value less costs to sell and value in use. Fair value less costs to sell is defined as the price that can be achieved in a sale of an asset or cash-generating unit between two knowledgeable, willing and independent business partners, less the costs to sell. The value in use of an asset or a cash-generating unit is determined by its present value in its current use on the basis of expected cash flows. No impairment of non-current assets was recognised in the 2016 and 2015 financial years.

Financial assets

Financial assets as defined in IAS 39 are divided into the following categories:

- originated loans and receivables
- financial assets held for trading

As at 31 December 2016 and 31 December 2015, the PSI Group mainly held originated loans and receivables.

Originated loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortised cost using the effective interest method. Gains and losses are recognised in the net profit or loss for the period when the loans and receivables are derecognised or impaired and through the amortisation process.

Financial assets held for trading are recognised at fair value when the relevant agreement is concluded and are remeasured at fair value in subsequent periods. Gains and losses from changes in the fair value of these financial assets held for trading are recognised immediately in profit or loss.

The Group uses the following hierarchy for determining and reporting the fair values of financial instruments depending on the valuation method used:

- Level 1: Quoted prices (unadjusted) in active markets for similar assets or liabilities
- Level 2: Methods in which all inputs with a significant effect on the recognised fair value are observable either directly or indirectly
- Level 3: Methods that use inputs with a significant effect on the recognised fair value that are not based on observable market data

Financial assets are tested for impairment at the end of each reporting period. In the case of financial assets carried at amortised cost, if it is likely that the company will not be able to collect all amounts of loans, receivables or held-to-maturity investments due in accordance with the contractual conditions, then an impairment loss or a valuation allowance for receivables is recognised in profit or loss. The impairment loss is defined as the difference between the carrying amount of the asset and the present value of expected future cash flows measured in line with the effective interest method. The carrying amount of the asset is reduced using an allowance account. The impairment loss is recognised in profit or loss. Impairment losses previously recognised as expenses are adjusted in income if the subsequent partial recovery in value (or decrease in the impairment loss) can be related objectively to an event occurring after the original impairment. However, increases in value are recognised only to the extent that they do not exceed the amortised cost if there had been no impairment. Financial assets are derecognised if they are classified as uncollectible.

As in the previous year, the carrying amounts of the financial assets and liabilities generally correspond to their fair values.

Financial liabilities

Financial liabilities as defined in IAS 39 are divided into the following categories:

- financial liabilities held for trading
- other financial liabilities

The financial liabilities reported in the consolidated financial statements of the PSI Group were mainly classified as other financial liabilities.

On initial recognition, financial liabilities are accounted for at cost, which corresponds to the fair value of the consideration given; transaction costs are also included.

Financial liabilities are no longer reported when they are repaid, i.e. when the obligations specified in the contract have been settled or cancelled or have expired.

As at 31 December 2016, the maturities of financial liabilities broke down as follows:

in EUR thousand	Payable on demand	Payable within 1 year	Payable within more than 1 year	**Total**
Trade payables	824	11,712	**17**	**12,553**
Other liabilities	690	29,785	444	**30,919**
	1,514	**41,497**	**461**	**43,472**

Trade payables due within one year include provisions for services that have yet to be performed in the amount of EUR 6,429 thousand.

As at 31 December 2015, the maturities of financial liabilities broke down as follows:

in EUR thousand	Payable on demand	Payable within 1 year	Payable within more than 1 year	**Total**
Trade payables	3,383	11,546	**0**	**14,929**
Other liabilities	383	28,582	1,256	**30,221**
Financial liabilities	0	3,374	83	**3,457**
	3,766	**43,502**	**1,339**	**48,607**

Trade payables due within one year include provisions for services that have yet to be performed in the amount of EUR 8,781 thousand.

Financial risk management objectives and methods

The main financial instruments used by the company to finance its operating business consist of cash and cash equivalents, available-for-sale financial assets and current liabilities (overdrafts) and other liabilities. There are also current receivables and liabilities from long-term development contracts, which are also covered by financial risk management. The main risks result from credit and liquidity risks. The Group is exposed to currency risks as a result of its business operations and net investments in foreign subsidiaries. For significant loans issued within the Group, a sensitivity analysis in relation to exchange rates was performed in order to illustrate possible effects on the Group net result. If the EUR/MYR exchange rate had been 10% lower as at 31 December 2016, this would have resulted in a decrease in the Group net result of approximately EUR 501 thousand. Conversely, a 10% increase in the EUR/MYR exchange rate would have meant an increase in the Group net result of approximately EUR 501 thousand. Due to the low significance of interest-bearing liabilities, interest risks exist only to a limited extent.

a) Credit risk

Credit risk, or the risk that a counterparty may fail to meet its payment obligations, is managed by using credit facilities, defining order-specific prefinancing ratios and applying monitoring procedures. The Group enters into transactions only with creditworthy third parties. A credit assessment is performed for all customers wishing to enter into transactions with the Group on a credit basis. Where appropriate, the company obtains collateral. Because most of the PSI Group's customers are well-known major companies from the energy and utilities sector or the steel and automotive industry that have a good or very good credit quality, the Board of Directors believes that the overall receivables portfolio of the PSI Group has a lower than average risk profile in comparison to other software providers. Concentrations of risk may arise with individual customers or groups of customers that are exposed to the same risk scenarios or operate in the same type of environment (same sector, same customers, same sales region, same currency, etc.). For the PSI Group, there is no significant concentration of credit risk either with an individual counterparty or with a group of counterparties with similar features. The maximum credit risk corresponds to the amount of the carrying amounts reported in the balance sheet for the financial assets from trade receivables and other assets.

The Group continuously monitors the risk of a liquidity shortage using liquidity planning tools (maturity, expected cash flows). The aim of this monitoring is to maintain a balance between continuously covering financing requirements and ensuring flexibility. In monitoring the financial balance, it is particularly important to monitor project financing. The PSI Group endeavours to maximise the prefinancing ratio (ratio of advance payments received for projects to receivables from long-term development contracts) for each project. Because there are significant differences in customers' payment history in relation to prefinancing depending on the industry in which the customers operate, the PSI Group has not made any specifications with regard to the exact amount of prefinancing. In general, a prefinancing ratio of between 50% and 60% is targeted in the Group as a whole. There are no further individual targets for key figures in the area of liquidity monitoring.

b) Capital management

The primary objective of the PSI Group's capital management is to ensure that a high credit rating and a good equity ratio are maintained so as to support business operations and maximise shareholder value.

The PSI Group manages its capital structure in line with the prevailing economic conditions. No adjustment measures or amendments to capital management goals and targets were made in the 2016 or 2015 financial years.

The PSI Group monitors its capital using the equity ratio on a consolidated basis. In accordance with the internal guidelines, an equity ratio of over 30% of total assets is targeted in relation to the equity calculated for the PSI Group according to IFRSs.

Current assets

a) Inventories
Inventories are measured at the lower of cost and expected net disposal proceeds less costs to be incurred.

b) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, fixed term deposits and demand deposits. The cash and cash equivalents reported in the Group statement of cash flows are delimited according to the above definition.

Shareholders' equity
Shareholders' equity comprises the share capital, the capital reserve, retained earnings, treasury shares, other reserves and accumulated profit or loss.

The capital reserve includes premiums in accordance with section 150 of the German Stock Corporation Act (AktG) and offset loss carryforwards in line with resolutions on the allocation of earnings.

Retained earnings include earnings allocations in accordance with section 174 AktG.

If the PSI Group acquires treasury shares, these are deducted from shareholders' equity. The purchase, sale, issue or withdrawal of treasury shares is not recognised in profit or loss.

Other reserves include unrealised gains and losses from currency translation and actuarial gains and losses from the measurement of pension provisions.

Pension provisions
The PSI Group has several defined benefit pension plans. In some cases, there are plan assets in the form of pension liability insurance for the defined benefit plans. The expenses for benefits granted under the defined benefit plans are calculated separately for each plan using the projected unit credit method. Actuarial gains and losses are recognised directly in equity.

Current liabilities

Other provisions
A provision is reported if the PSI Group has a present (statutory, contractual or constructive) obligation due to a past event, if it is likely that the settlement of the obligation will result in an outflow of resources that represent an economic benefit, and if the amount of the obligation can be estimated reliably. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If the corresponding interest effect is material, the amount of the provision corresponds to the present value of the expenses likely to be required to settle the obligation. Where discounting is used, the increase in the provision to reflect the passage of time is recognised as borrowing costs.

Government grants
Government grants are recognised if there is reasonable assurance that the company will comply with the conditions attaching to it. Government grants are recognised in profit or loss as scheduled in line with the recognition of the related costs which they are intended to compensate. Grants received for the acquisition of property, plant and equipment are reported under other liabilities as deferred income that is recognised as income in line with the reported depreciation during the use of the asset in question. Income generated in connection with the grants is reported as other operating income in the consolidated income statement.

The grants provided to the company as investment subsidies by Investitionsbank Berlin are dependent on future compliance with certain conditions. These primarily include compliance with job guarantees and with guarantees to retain the subsidised economic assets. The investment subsidies received from the tax office are dependent on compliance with guarantees to retain the subsidised economic assets. Based on its planning, the PSI Group expects these conditions to be met in full.

In 2016 the PSI Group received subsidies totalling EUR 816 thousand (previous year: EUR 706 thousand) under various subsidy programmes, including programmes offered by the German federal government, the State of Berlin and the European Union. As in the previous year, the subsidies granted were recognised in profit or loss and reported as a reduction of the corresponding expenses. Besides the obligation to demonstrate the amount of the expenses for which the subsidies were granted, there are no further conditions or obligations arising from the subsidy projects.

Borrowing costs

No significant borrowing costs were incurred or capitalised as part of the production of qualifying assets in the financial year under review or in the previous year.

Research and development costs

Research and development costs amounted to EUR 16.3 million in the 2016 financial year (previous year: EUR 19.1 million).

Leases

Determining whether an arrangement is or contains a lease is based on the economic substance of the arrangement and requires an assessment as to whether the fulfilment of the contractual arrangement is dependent on the use of a specific asset or assets and whether the arrangement grants a right to use the asset.

A lease is classified as an operating lease if essentially all the risks and rewards associated with ownership remain with the lessor. Lease payments within an operating lease are recognised as expenditure on a straight-line basis over the term of the lease.

The PSI Group has mainly concluded leases for vehicles and hardware (servers). The term of these operating leases is generally three to four years.

Recognition of revenues and income

The PSI Group primarily generates its revenues from project business and from issuing licences for the use of its own software products to end customers, both with and without customer-specific adjustments. Revenues are also generated from the sale of third-party software, hardware and services such as installation, consultancy, training and maintenance.

a) Project business

For long-term project contracts that meet the requirements for applying the percentage-of-completion method in accordance with IAS 11, revenues from the development and sale of software systems and products is accrued and recognised depending on the percentage of completion of the project in line with the percentage-of-completion method. The percentage of completion is determined based on the ratio of labour hours worked to the total number of labour hours planned, or on the basis of milestones. Advance payments received from customers are offset against the corresponding receivables items with no effect on profit or loss. Changes in the project conditions may result in adjustments to the costs and revenues originally recognised for individual projects. Such changes are recognised in the period in which they are determined. In addition, provisions for anticipated losses from pending transactions are recognised in the period in which these losses are determined and are offset against the amount of receivables for the project.

b) Sale of licences

The PSI Group recognises its revenues on the basis of a corresponding contract as soon as the licence has been delivered, the selling price is fixed or determinable, there are no significant obligations to customers and collection of the receivables is considered probable.

c) Maintenance, other services

Income from maintenance agreements is recognised on a straight-line basis over the term of the agreement on the basis of past experience. Income from consultancy and training services is recognised as soon as the service is performed. Income from maintenance is reported as revenues from software development and maintenance in the notes to the consolidated financial statements, together with income from project business (less merchandise/hardware for which the costs are passed on).

d) Recognition of interest income

Interest is recognised on a time proportion basis, taking account of the effective yield on the asset.

Income taxes

Current tax assets and liabilities for the current and prior periods are to be measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is calculated based on the tax rates and tax laws that are applicable or will soon be applicable as at the end of the reporting period.

Deferred taxes are accounted for using the liability method for all temporary differences as at the end of the reporting period between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax liabilities are recognised for all taxable temporary differences with the exception of:

- deferred tax liabilities from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and does not affect the accounting profit for the period or the taxable profit at the time of the transaction
- the deferred tax liability from taxable temporary differences relating to investments in subsidiaries, associated companies and interests in joint ventures that cannot be recognised if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse 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 probable or there is convincing evidence that taxable income will be available against which the deductible temporary differences and the unused tax loss carryforwards and tax 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 a transaction that is not a business combination and does not affect the accounting profit for the period or the taxable profit at the time of the transaction
- deferred tax assets from deductible temporary differences relating to investments in subsidiaries, associated companies and interests in joint ventures. These can be recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is reviewed at the end of each reporting period and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be at least partially offset. Unrecognised deferred tax assets are reviewed at the end of each reporting period and recognised to the extent that it has become probable or convincing evidence has emerged that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that are applicable or have been announced as at the end of the reporting period. Income taxes relating to items recognised directly in equity are recognised in equity and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset against one another if they relate to income taxes of the same taxable entity levied by the same taxation authority and if it is not possible to offset the deferred taxes against one another.

Sales tax

Revenues, expenses and assets are recognised net of sales tax, except in the following cases:

- If the sales tax incurred when purchasing assets or services cannot be claimed from the taxation authority, the sales tax is recognised as part of the cost of the asset or as part of the expenses
- Receivables and liabilities are recognised including the associated amount of sales tax

The amount of sales tax reimbursed by or paid to the taxation authority is recognised in the consolidated balance sheet under receivables or liabilities.

Segment reporting

a) Operating segments

The PSI Group is divided into three main business areas:

- Energy Management
- Production Management
- Infrastructure Management

Financial information on the business segments and geographical segments is presented in section F. of the notes and in a separate table (page 50 – 51) to these notes to the consolidated financial statements. Segment reporting was adjusted in the financial year in line with the internal management of the operating segments.

b) Transactions between business segments

Transfers between business segments are included in the “Reconciliation” column in a separate annex (page 50 – 51) to these notes to the consolidated financial statements. Revenues between business units amounted to EUR 8,526 thousand as at 31 December 2016 (previous year: EUR 9,882 thousand). Such transfers are accounted for at general market prices that are charged to non-associated customers for similar services. These transfers were eliminated on consolidation.

DISCLOSURES ON THE CONSOLIDATED BALANCE SHEET

Non-current assets

1 Intangible assets and property, plant and equipment

With regard to the development of non-current assets in the financial years that ended on 31 December 2016 and on 31 December 2015, please refer to the attached information on the development of intangible assets and property, plant and equipment (page 52).

Goodwill and property, plant and equipment

As at 31 December 2016 and 31 December 2015, the PSI Group performed an impairment test with regard to its non-current assets. For determining the value in use, the impairment test takes account of the following units with the attributable carrying amounts for goodwill:

in EUR thousand	**31.12.2016**	31.12.2015
Energy Management		
Electrical Energy division of PSI AG, plus Nentec and CNI	1,493	1,493
Gas and Oil division of PSI AG	1,576	1,576
PSI Energy Markets	2,267	2,267
Time-steps AG	605	605
	5,941	**5,941**
Production Management		
PSI Automotive & Industry	615	615
PSI Metals	8,198	8,198
PSI Logistics	838	838
PSI Mines&Roads	285	285
FLS	342	342
PSI Metals Austria Group	10,750	10,750
PSI Metals UK Ltd.	3,578	4,139
	24,606	**25,167**
Infrastructure Management		
PSI Transcom	2,352	2,352
PSI Incontrol Group	16,015	16,099
	18,367	**18,451**
	48,914	**49,559**

The impairment test is based on cash flow projections for the individual cash-generating units and expectations with regard to the market development (growth rates in the relevant market segment, ratio of software project income to maintenance income, hourly and daily rates for employees, average personnel expenses, higher margins for sales of hardware and third-party licences). The three-year planning period reflects the long-term corporate planning. The cash flows recognised were derived from past information. The cash flows are adjusted by means of discounts to take account of current economic conditions. As in the past year, an increase in the operating margin of between 1% and 2% is planned in the budgets for subsequent years. The assumptions made by the management with regard to the general trend for business development in the software industry correspond to the expectations of industry experts and market observers.

Discount rates of 4.61% to 8.08% after taxes (previous year: 5.36% to 6.90%) were applied. The adjustment of the interest rate compared to the previous year reflects the current economic conditions in each case (development of the real economy and financing conditions). Cash flows arising after the three-year period are extrapolated using a growth rate of 1.82% (previous year: 1.30%).

In the view of the management, no currently reasonably possible change in any of the basic assumptions made in determining the value in use of the cash-generating units could result in the carrying amount of the cash-generating unit significantly exceeding its recoverable amount.

2 Investments in associated companies

By way of an agreement dated 26 December 2016, OOO PSI Russia acquired 33% of the shares in Gazavtomatika dispetcherskije sistemy, based in Moscow, Russia, for a purchase price of 33,000 Russian roubles (EUR 511). This company was established in December 2016 and will operate in the areas of the development of proprietary basic software for managing grid control systems and the sale of software solutions and complex systems for the Russian gas sector.

Current assets

3 Inventories

in EUR thousand	**2016**	2015
Hardware and third-party licences	5,785	3,780
Advance payments to subcontractors	636	404
	6,421	**4,184**

4 Net trade receivables

in EUR thousand	**2016**	2015
Gross trade receivables	30,388	37,871
Specific valuation allowances	– 2,922	– 1,702
	27,466	**36,169**

Trade receivables do not bear interest and are payable within 0 to 90 days. The specific valuation allowances recognised developed as follows:

in EUR thousand	**2016**	2015
As at 1 January	1,702	1,156
Addition recognised as expense	1,271	599
Reversal recognised as income	– 51	– 53
As at 31 December	**2,922**	**1,702**

As at 31 December, the maturity structure of trade receivables was as follows:

in EUR thousand	2016	2015
Neither past due nor impaired	**18,356**	**20,648**
Past due (after impairment)		
< 30 days	2,910	7,896
30 – 60 days	1,420	2,048
60 – 90 days	212	908
90 – 120 days	236	1,080
> 120 days*	4,332	3,589
	9,110	**15,521**
As at 31 December	**27,466**	**36,169**

* Thereof paid by 20 February 2017: EUR 373 thousand (previous year: EUR 501 thousand)

5 Receivables from long-term development contracts

Receivables in accordance with the percentage-of-completion method arise when revenues are recognised but cannot yet be invoiced according to the contractual conditions. These amounts are recognised on the basis of various performance criteria such as the achievement of specified milestones, the ratio of planned labour hours to labour hours worked by internal employees, the completion of specified units or the completion of the contract. This item of the balance sheet comprises directly attributable costs (personnel expenses and purchased services) as well as an appropriate portion of general overhead costs and profit shares.

The receivables measured according to the percentage-of-completion method include the following components:

in EUR thousand	2016	2015
Costs incurred	88,946	79,253
Share of profits	15,963	12,537
Contract revenues	**104,909**	**91,790**
Advance payments received	– 92,453	– 84,243
Thereof offset against contract revenues	– 66,725	– 55,424
Receivables from long-term development contracts	38,184	36,366
Liabilities from long-term development contracts	25,728	28,819

Liabilities from long-term development contracts comprise advance payments received that exceed the corresponding receivables from long-term development contracts.

Receivables from long-term development contracts in the amount of EUR 38,184 thousand (previous year: EUR 36,366 thousand) were neither past due nor impaired as at 31 December of the respective year.

With regard to the development contracts work accepted, there are warranty obligations in the ordinary course of business.

6 Other assets

in EUR thousand	2016	2015
Receivables from tax credits	2,292	2,073
Prepaid expenses	1,215	1,152
Advance payments	896	903
Subsidies	70	139
Miscellaneous	1,158	925
	5,631	**5,192**

The prepaid expenses chiefly include accrued prepayments for maintenance and will be recognised as expenses within one year.

No specific impairment allowance was recognised for other assets; there are no past-due or impaired receivables.

7 Cash and cash equivalents

in EUR thousand	2016	2015
Bank balances	40,269	33,916
Fixed term deposits	2,716	4,890
Cash in hand	23	25
	43,008	**38,831**

The fixed term deposits and bank balances are not past due; specific valuation allowances are not required.

8 Equity

With regard to the development of equity, please refer to the statement of changes in Group equity (page 50).

a) Share capital

The fully paid-in share capital entered in the commercial register amounts to EUR 40,185,256.96 (previous year: EUR 40,185,256.96) and is divided into registered shares representing a pro rata amount of the share capital of EUR 2.56 per share.

b) Contingent capital and authorised capital

By way of resolution of the Annual General Meeting on 7 May 2013, the Board of Directors of the company was authorised to issue convertible and warrant-linked bonds as well as profit-sharing rights and/or income bonds, with the option of disapplying subscription rights in each case, until 6 May 2018.

To fulfil any rights exercised in the above context, a new "Contingent Capital 2013" was created at the Annual General Meeting on 7 May 2013. Under the Contingent Capital 2013, the company's share capital is contingently increased by up to EUR 8,035,840.00, divided into 3,139,000 shares.

By way of resolution of the Annual General Meeting on 12 May 2015, new authorised capital (AC 2015) was created. The Board of Directors was authorised, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions by a total of up to EUR 8,035,840.00 by issuing new registered shares in exchange for cash or contributions in kind in the period until 11 May 2020.

Contingent capital and authorised capital break down as follows:

in EUR thousand	2016	2015
Authorised capital (AC)		
AC 2015 (until 11 May 2020)	8,036	8,036
	8,036	**8,036**
Contingent capital (CC)		
CC 2013 (until 6 May 2018)	8,036	8,036
	8,036	**8,036**
	16,072	**16,072**

c) Capital reserves

The capital reserve includes the premium from capital increases. The costs attributable to issuing equity instruments were deducted directly from equity as a negative premium, taking account of tax effects.

d) Reserve for treasury shares

No shares were repurchased in the financial year (previous year: 28,176). A total of 51,169 treasury shares were transferred as part of an employee share programme. As at 31 December 2016, the number of treasury shares came to 41,350 (previous year: 92,519).

e) Other reserves

Other reserves break down as follows:

in EUR thousand	2016	2015
Reserve for exchange differences	– 681	– 365
Actuarial losses	– 24,708	– 19,722
Deferred tax	7,801	6,316
	– 17,588	**– 13,771**

The deferred tax resulted from actuarial losses.

f) Dividends

The Annual General Meeting approved the Board of Directors' proposal for the appropriation of net profit for 2015. Based on this resolution, a dividend of EUR 3,277,017.87 was distributed for the 2015 financial year. This corresponds to EUR 0.21 per entitled share. In the previous year, no dividend had been distributed.

The Board of Directors is proposing the distribution of a dividend of EUR 0.22 per entitled share. This corresponds to an anticipated total payment of EUR 3,444 thousand. The payment of this dividend depends on the approval of the Annual General Meeting on 16 May 2017.

Non-current liabilities

9 Pension provisions

Pension provisions are recognised for obligations (old-age pensions, disability benefits, widows' and orphans' pensions) from future entitlements and from current benefits to eligible current and former employees of the PSI Group and their surviving dependants.

In the PSI Group, there are three different models of defined benefit pension commitments that grant retirement benefits to employees depending on their length of service at the company and their remuneration before the start of the pension. On 5 December 2006, the Board of Directors of PSI AG and the Group Works Council concluded a Group works agreement governing the company pension plans and compensation payments within the PSI AG Group, which covers all existing models of defined benefit pension commitments. As a Group works agreement, the agreement between the Board of Directors of PSI AG and the Group Works Council thus superseded the existing individual agreements.

The content of this agreement concerns the modification of the existing retirement benefit plans:

- The vested rights of the majority of employees as at 31 December 2006 were frozen as a fixed amount. This freezing means that the acquired entitlement to an old-age pension does not rise beyond the level reached as at 31 December 2006, neither as a result of future service nor due to future salary increases.
- As compensation for the loss of future increases in the company pension (increases in entitlements), either steadily increasing contributions are paid into a provident fund with pension liability insurance until the end of the employment relationship, or at the latest until the employee reaches a certain age limit, or the employees are granted an increase in the gross cash compensation in the form of a steadily increasing annual lump sum payment. These compensation amounts are calculated in accordance with actuarial principles.

- In calculating the compensation amounts, the first step is to determine what constant annual premium would have to be paid to a notional insurer if this insurer had to continue paying the retirement benefits under the previous pension plans with no changes. In the first year, the amount of the compensation payment to the employees corresponds to 70% of the constant annual premium of a notional insurer calculated in this way, and subsequently it is increased by a constant percentage each year. If an employee leaves the company early and the contributions paid into the provident fund have not yet reached 100% of the employee's compensation entitlement, the PSI Group is not required to pay the difference to the employee.

The amount of the pension obligation (present value of the pension commitments) was calculated using actuarial methods based on the following assumptions:

in %	2016	2015
Discount factor		
Germany	1.56	2.30
Austria	1.10	2.25
Salary trend		
Germany	0.00/1.30[1]	1.50[1]
Austria	2.75	2.75
Pension trend		
Germany	1.50	1.50
Austria	0.00	0.00
Staff turnover		
Germany	0.00/4.50[2]	4.50[2]
Austria	0.00	0.00
Mortality tables used:		
Germany	RT Heubeck 2005 G	
Austria	AVÖ 2008	

[1] A portion of the pension commitments was superseded on 31 December 2006. For this portion, salary trends are not relevant with regard to calculating the obligation.

[2] A portion of the pension commitments was superseded on 31 December 2006. For this portion, staff turnover assumptions are not relevant with regard to calculating the obligation.

The salary trend comprises anticipated future salary increases that are estimated on an annual basis depending on factors such as inflation and length of service at the company.

As at 31 December 2016, an age at the expiry of financing of 65 years and 5 months (previous year: 64 years) was assumed when calculating the German pension obligation. The age at the expiry of financing is based on statistics on retirement ages in the PSI Group. For calculating the severance provision in Austria, the APG 08 (Austrian General Pension Act) applies.

Expenses for retirement benefits break down as follows:

in EUR thousand	2016	2015
Service cost reported under personnel expenses	46	18
Interest expense reported under net interest	1,073	1,072
Expenses for retirement benefits	**1,119**	**1,090**

The following overview shows the development of the net amount of the provision:

in EUR thousand	2016	2015
Present value of defined benefit obligation	64,397	59,107
Plan assets*	– 12,360	– 12,126
Pension liability	**52,037**	**46,981**

* For information on plan assets, please refer to the following table.

The following overview shows the development of the present value of the defined benefit obligation:

in EUR thousand	**2016**	2015
Pension liability, start of period	59,107	47,080
Actuarial gains and losses from changes in demographical assumptions recognised in other comprehensive income	4,768	160
Actuarial gains and losses from changes in financial assumptions recognised in other comprehensive income	– 282	185
Actuarial gains and losses based on experience-related assumptions and recognised in other comprehensive income	500	0
Pension payments	– 1,634	– 1,534
Expenses for retirement benefits	1,119	1,090
Present value of insured defined benefit obligation*	234	12,126
Additions/disposals	585	0
Pension liability, end of period	**64,397**	**59,107**

* In view of the capital market development up to the end of 2015, the management arrived at the assessment that the pension plan insured via the provident fund should be qualified as a defined benefit plan in 2015. This changed assessment did not have any significant impact on the consolidated financial statements.

The following overview shows the development of the present value of the plan assets:

in EUR thousand	**2016**	2015
Present value of plan assets, start of period	12,126	0
Plan assets	234	12,126
Present value of plan assets, end of period	**12,360**	**12,126**

The plan assets consist of pension liability insurance. Please refer to the footnote in the table above.

The table below shows a quantitative sensitivity analysis of the key assumptions as at 31 December 2016:

Assumption	**Interest rate sensitivity**		**Pension trend sensitivity**	
Scenario	Increase of 0.2%	Decrease of 0.2%	Increase of 0.2%	Decrease of 0.2%
Effects on defined benefit obligation (in EUR thousand)	– 1,431	1,496	1,129	– 1,094

The above sensitivity analysis was performed using a method that extrapolates the effect of realistic changes in the key assumptions as at the end of the reporting period on the defined benefit obligation.

The average term of the defined benefit obligation as at the end of the reporting period is shown below.

in years	**2016**	2015
Germany	14.01	13.58
Austria	6.80	7.20

The table below shows the expected payout structure for the coming years:

in EUR thousand	**2016**	2015
Pension payments made	**1,634**	**1,534**
Expected pension payments:		
2017	1,810	1,787
2018	1,916	n/a
2019	1,997	n/a
2020	2,137	n/a
2021	2,217	n/a
Another 5 years	11,648	n/a

10 Financial liabilities

Non-current financial liabilities include liabilities from loans in the amount of EUR 0 thousand (previous year: EUR 83 thousand).

Expenses for interest from long-term bank loans amounted to EUR 0 thousand in the financial year under review (previous year: EUR 2 thousand).

Current liabilities

11 Financial liabilities

Financial liabilities include liabilities from loans in the amount of EUR 0 thousand (previous year: EUR 3,374 thousand) and liabilities from overdrafts in the amount of EUR 2 thousand (previous year: EUR 0 thousand).

The PSI Group uses short-term, floating-rate overdrafts for financing purposes. The financial liabilities are repaid on a monthly basis and bear interest at a rate of between 2.73% and 3.25%. No special collateral is provided. Continuous refinancing of current financial liabilities is targeted. The fair values of the financial liabilities correspond to their carrying amounts. As at 31 December 2016, the PSI Group had undrawn borrowing facilities from overdrafts in the amount of EUR 22,097 thousand (previous year: EUR 24,481 thousand).

Expenses for interest from overdrafts amounted to EUR 147 thousand in the 2016 financial year (previous year: EUR 213 thousand).

12 Other liabilities

in EUR thousand	**2016**	2015
Personnel-related liabilities	13,567	12,367
Taxes payable	5,081	6,976
EUR 4,067 thousand in wage tax and sales tax (previous year: EUR 5,740 thousand)		
EUR 1,014 thousand in income tax (previous year: EUR 1,236 thousand)		
Deferred income	7,496	6,322
Social security liabilities	411	212
Miscellaneous	4,364	4,344
	30,919	**30,221**

Personnel-related liabilities mainly include obligations for holiday entitlements, overtime and special payments. The deferred income (primarily prepaid maintenance income) will affect profit or loss within one year, with the exception of EUR 1,355 thousand (previous year: EUR 1,264 thousand) that will affect profit or loss in the coming years.

13 Deferred taxes/income taxes

German trade tax is levied on the taxable profit of the German Group companies, which is calculated by deducting certain income that is not subject to trade tax and adding certain expenses that are not deductible for trade tax purposes. The effective trade tax rate depends on the municipality in which the respective German Group company operates. As in the previous year, the average trade tax rate in 2016 was approximately 15%. A corporation tax rate of 15% applied in the 2015 and 2016 financial years. In addition to corporation tax, a solidarity surcharge of 5.5% is levied on the corporation tax determined. This therefore results in an effective tax rate of 29.83% (previous year: 29.83%) for the calculation of current income taxes for the 2016 financial year.

Income tax expense for the current financial year breaks down as follows:

in EUR thousand	**2016**	2015
Current tax expense		
Current year	– 1,908	– 2,262
Deferred tax expense		
Change in intangible assets	– 22	326
Change in long-term development contracts	– 1,699	– 444
Partial retirement and anniversary bonus provisions	3	8
Changes in trade receivables	2,287	225
Change in pension provisions	– 190	– 221
Project-related provisions	– 174	494
Other provisions	– 183	270
Fixed assets	– 37	71
Deferred income	– 759	– 446
	– 774	283
Income tax expense	**– 2,682**	**– 1,979**

The following overview shows a reconciliation of tax expense/income:

in EUR thousand	**2016**	2015
Earnings before taxes	11,233	9,438
Theoretical income tax expense (29.83%; previous year: 29.83%)	– 3,351	– 2,815
Non-capitalisation of tax losses	– 359	– 1,150
Non-deductible operating expenses and trade tax additions	– 229	– 200
Use of non-capitalised tax loss carryforwards	858	2,148
Effects from tax rate differences in foreign countries	238	– 69
Tax expense for previous years	– 4	2
Tax-exempt foreign income	44	23
Miscellaneous	121	82
Current tax expense	**– 2,682**	**– 1,979**

The deferred taxes reported in the PSI Group break down as follows:

in EUR thousand	**2016**	Change	2015
Deferred tax			
Pension provisions	7,846	1,295	6,551
Intangible assets	– 786	– 22	– 764
Goodwill amortisation with impact on tax	– 470	0	– 470
Partial retirement and anniversary bonus provisions	32	3	29
Project-related provisions	649	– 174	823
Receivables from long-term development contracts	– 3,747	– 1,699	– 2,048
Fixed assets	– 16	– 37	21
Trade receivables	1,902	2,287	– 385
Other provisions	133	– 236	369
Deferred income	193	– 759	952
Miscellaneous	11	53	– 42
	5,747	**711**	**5,036**
thereof recognised in profit or loss		– 774	(previous year: 283)
thereof recognised in other comprehensive income		1,485	(previous year: 112)
Amounts recognised in statement of financial position			
Deferred tax assets	8,663		6,999
Deferred tax liabilities	– 2,916		– 1,963

The PSI Group has the following tax loss carryforwards:

in EUR million	**2016**	2015
Loss carryforward for trade tax in Germany	36.3*	38.0*
Loss carryforward for corporation tax in Germany	38.6*	40.1*
Loss carryforwards for foreign countries	9.3	7.9

The loss carryforwards in Germany do not expire.

* The disclosures on loss carryforwards in Germany take account of the fact that the acquisition that has since occurred in the 2009 financial year and the allocation of a total of 28.60% of the voting rights in the company by Kajo Neukirchen GmbH, Eschborn, since 1 January 2009 resulted in the loss of 25.65% of the eligible tax loss carryforwards.

D. DISCLOSURES ON THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement is prepared using the nature of expense method.

14 Revenues

in EUR thousand	**2016**	2015
Software development and maintenance	149,479	153,305
Licences	13,581	13,196
Merchandise	13,794	17,181
	176,854	**183,682**

15 Other operating income

in EUR thousand	**2016**	2015
Project income	2,028	1,581
Income from currency translation	947	1,196
Income from 1% regulation for leasing cars	871	841
Miscellaneous	1,171	1,872
	5,017	**5,490**

16 Cost of materials

in EUR thousand	**2016**	2015
Cost of purchased services	14,155	16,244
Cost of purchased goods	12,055	15,352
	26,210	**31,596**

17 Personnel expenses

in EUR thousand	2016	2015
Wages and salaries	92,697	90,962
Social security contributions	16,572	15,858
	109,269	**106,820**

Personnel expenses include expenses for payments to private pension institutions of EUR 624 thousand (previous year: EUR 643 thousand) and payments to state pension funds of EUR 5,490 thousand (previous year: EUR 5,286 thousand) in connection with defined contribution pension commitments.

18 Amortisation and depreciation

in EUR thousand	2016	2015
Of intangible assets and property, plant and equipment	4,294	4,286
	4,294	**4,286**

19 Other operating expenses

in EUR thousand	2016	2015
Travel costs	6,083	7,222
Rental, leasing of real estate	6,130	6,487
Project-related expenses	262	2,820
Advertising and marketing activities	3,995	4,445
Lease costs for moveable assets	2,029	2,126
Data line, IT and telephone costs	3,014	3,020
Legal and consulting costs	2,393	2,298
Contributions, fees and levies	304	456
Miscellaneous	6,053	6,487
	30,263	**35,361**

20 Net finance costs

in EUR thousand	2016	2015
Financial income	486	134
Financial expenses	– 1,235	– 1,945
Net income from associated companies	147	140
	– 602	**– 1,671**

21 Earnings per share

In accordance with IAS 33, basic earnings per share are calculated by dividing the Group net result or loss by the weighted number of shares.

	2016	2015
Net profit or loss for the period (EUR thousand)	8,551	7,459
Weighted number of shares (thousands)	15,618	15,620
Basic/diluted earnings per share (EUR per share)	**0.55**	**0.48**

To calculate diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares that could arise as a result of subscription rights being exercised.

E. DISCLOSURES ON THE GROUP STATEMENT OF CASH FLOWS

The reported cash and cash equivalents are not subject to any restrictions on their availability due to third parties. During the year under review, a dividend of 21 euro cents per share (previous year: 0 euro cents per share) was distributed to the shareholders for the 2015 financial year. The breakdown of cash and cash equivalents is shown in the table under C. 7. Overdraft liabilities were not included in cash and cash equivalents.

F. DISCLOSURES ON SEGMENT REPORTING

The PSI Group has three main segments that are reportable and applies IFRS 8 "Segment Reporting". This standard includes regulations on the disclosure of information on business areas and geographical segments.

Description of the segments

- Energy Management: Intelligent solutions for utility companies in the electricity, gas, oil and water sectors. The focus here is on reliable and cost-effective solutions for grid management and for trade and distribution in liberalised energy markets.
- Production Management: Software products and individual solutions for production planning, particularly tasks relating to production control and efficient logistics. The focus is on optimising the use of resources and increasing quality and cost-effectiveness.
- Infrastructure Management: High-availability control system solutions for the monitoring and cost-effective operation of infrastructure in the areas of transport, public safety, environmental protection and disaster management.

Reconciliation of segment assets and liabilities

Segment assets/liabilities are reconciled to gross assets/liabilities as follows:

in EUR thousand	**2016**	2015
Gross assets according to statement of financial position	199,427	199,522
- Deferred tax assets	– 8,663	– 6,999
Segment assets	**190,764**	**192,523**
Gross liabilities according to statement of financial position	124,153	126,370
- Provisions for taxes	– 1,014	– 1,236
- Deferred tax liabilities	– 2,916	– 1,963
Segment liabilities	**120,223**	**123,171**

Additional geographical disclosures

In the 2016 financial year, the PSI Group generated revenues of EUR 97 million (previous year: EUR 93.1 million) in Germany and revenues of EUR 79.9 million (previous year: EUR 90.6 million) in foreign countries. Non-current assets of EUR 37,239 thousand (previous year: EUR 38,721 thousand) are attributable to foreign countries.

G. OTHER DISCLOSURES

Other financial obligations and contingencies

Operating rental agreements and leases – PSI Group as lessee

Cars, office equipment, data processing systems and other equipment were rented under operating leases. In the 2016 financial year, rent and leasing fees of EUR 1,012 thousand (previous year: EUR 1,029 thousand) were incurred in this context.

PSI AG concluded a rental agreement for an office building in Berlin in the 1996 financial year. The rental agreement was renegotiated in 2010 and had a term until 31 March 2017. In June 2015, an option agreed in the rental agreement for its renewal was exercised. The rental agreement now has a term until 31 March 2022.

As at 31 December 2016, these and other rental agreements and leases resulted in the following rent and lease payments:

in EUR thousand	Rent payments	Lease payments	**Total**
2017	4,300	1,230	5,530
2018	3,461	780	4,241
2019	3,270	396	3,666
2020	2,921	62	2,983
2021	2,671	3	2,674
2022 and thereafter	883	0	883
Total	**17,506**	**2,471**	**19,977**

As at 31 December 2015, these and other rental agreements and leases resulted in the following rent and lease payments:

in EUR thousand	Rent payments	Lease payments	**Total**
2016	4,372	1,015	5,387
2017	3,648	728	4,376
2018	2,861	388	3,249
2019	2,840	144	2,984
2020	2,564	12	2,576
2021 and thereafter	3,249	0	3,249
Total	**19,534**	**2,287**	**21,821**

Bill of exchange guarantees

Bill of exchange guarantees of EUR 42,106 thousand (previous year: EUR 43,487 thousand) were assumed for the PSI Group by various insurance companies and banks as at the end of the reporting period. The table below shows the undiscounted maximum amount for which PSI AG was liable at the end of the reporting period:

in EUR thousand	**2016**	2015
Advance payment guarantee	30,407	28,998
Contract performance guarantee	7,465	7,385
Warranty guarantee	2,417	2,765
Rent guarantee	789	800
Bid guarantee	200	300
Total	**41,278**	**40,248**

Employees

The average number of employees in the PSI Group in the financial year under review was 1,637 (previous year: 1,677). The workforce breaks down by function as follows:

	2016	2015
Production	1,316	1,365
Administration	162	161
Sales	126	124
Development	33	27
Total	**1,637**	**1,677**

Equity statement

	Shares in %	Shareholders' equity[1)] 31.12.2016 in EUR thousand	Net result[1)] 2016 in EUR thousand
PSI Automotive & Industry GmbH, Berlin	100	7,099	– 36
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	936	– 199[3)]
PSI Metals North America Inc., Pittsburgh, USA	100	975	572
PSI Transcom GmbH, Berlin	100	1,248	354
PSI AG Produkte und Systeme der Informationstechnologie, Wil, Switzerland	100	1,683	769
PSI Logistics GmbH, Berlin	100	– 3,355	1,161
PSI Energy Markets GmbH, Hanover	100	1,330	0[2)]
PSI Mines&Roads GmbH, Berlin	100	– 1,312	– 164
PSI Polska Sp. z o.o., Poznan, Poland	100	1,202	741
PSI CNI Control, Networks & Information Management GmbH, Leonding, Austria	100	893	– 107
FLS FUZZY Logik Systeme GmbH, Dortmund	100	378	0[2)]
PSI Metals Non Ferrous GmbH, Aachen	100	1,005	0[2)]
OOO 'PSI', Moscow, Russia	100	4,097	459
PSI Incontrol Sdn. Bhd., Selangor, Malaysia	100	9,773	– 1,364[3)]
PSI Incontrol Private Ltd., Chennai, India	100	8	23[3)]
PSI Incontrol SPC, Salmabad, Bahrain	100	827	88[3)]
Incontrol Tech (Thailand) Ltd., Bangkok, Thailand	100	– 508	– 99[3)]
Incontrol Tech Holdings (Thailand) Ltd., Bangkok, Thailand	100	– 387	– 270[3)]
PSI Incontrol ANZ Pty Ltd., Australia	100	0	0[3)]
PSI Metals Austria GmbH, Graz, Austria	100	4,204	1,067
PSI METALS INDIA PRIVATE LTD., Kolkata, India	100	353	59
PSI Metals Belgien NV, Brussels, Belgium	100	881	296
PSI Metals Brazil Ltda, Rio de Janeiro, Brazil	100	1,167	805
PSI TURKEY BİLİŞİM TEKNOLOJİLERİ SANAYİ VE TİCARET A.Ş., Istanbul, Turkey	100	8	– 9
Time-steps AG, Affoltern am Albis, Switzerland	100	451	68
PSI Metals UK Ltd., Watford, United Kingdom (formerly Broner Metals)	100	2,898	382
OOO OREKHsoft, Moscow, Russia	49	75	67
OOO Gazavtomatika dispetcherskije sistemy, Moscow, Russia	33	1	0
caplog-x GmbH, Leipzig	31.3	668	468[4)]

[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 as of 31 December 2015, as values as of 31 December 2016 were not available at the date of the financial statements

Auditor's fees

The following fees were incurred in the financial year for services performed by the auditor:

in EUR thousand	**2016**	2015
Audit services	168	198
Tax consultancy services	272	254
Other consultancy services	251	154
Total	**691**	**606**

Audit fees comprise the audit of the financial statements of PSI AG, the consolidated financial statements of the PSI Group and all major subsidiaries of the PSI Group.

Related party disclosures

Parties are considered to be related if they have the ability to control the PSI Group or exercise significant influence over its financial and operating policies. In determining whether related parties of the PSI Group exercise significant influence over its financial and operating policies, the existence of fiduciary relationships was taken into account as well as existing control relationships.

Related companies

The affiliated companies included in the Group financial statements are to be regarded as related companies. In addition, the associated company caplog-x is to be regarded as a related company. There are no other related companies.

There are transactions between PSI AG and its subsidiaries in the context of supplies and services, cash management, central administrative services and personnel provision; these are eliminated on consolidation.

Related persons

The following individuals are to be regarded as related persons:

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

Members of the Supervisory Board of PSI AG
Karsten Trippel
Bernd Haus
Prof. Ulrich Wilhelm Jaroni
Andreas Böwing, since 5 February 2016
Elena Günzler
Uwe Seidel

Transactions with related persons

There were no business transactions between the related persons and the PSI Group in 2016 or in 2015.

Supervisory Board

The following persons were members of the Supervisory Board in the 2016 financial year:

Name	Profession	Domicile	Membership of supervisory boards of other companies
Karsten Trippel (Chairman since 17 February 2016)	Businessman	Großbottwar	1. Berlina AG für Anlagewerte, Berlin (Chairman) 2. Preussische Vermögensverwaltungs AG, Berlin (Chairman) 3. Riebeck-Brauerei von 1862 AG, Wuppertal (Chairman) 4. Ost-West Beteiligungs- und Grundstücksverwaltungs-AG, Cologne (Deputy Chairman)
Prof. Ulrich Wilhelm Jaroni (Deputy Chairman)	Engineering graduate	Aschau	None
Bernd Haus	Economics graduate	Ranstadt	None
Andreas Böwing since 5 February 2016	Lawyer	Herten	None
Elena Günzler (employee representative)	Mathematics graduate	Berlin	None
Uwe Seidel (employee representative)	Chemistry graduate	Duisburg	None

Remuneration of Board of Directors and Supervisory Board

Compensation totalling EUR 958 thousand (previous year: EUR 984 thousand) was granted to the Board of Directors of PSI AG for the 2016 financial year:

in EUR thousand	2016	2015
Fixed remuneration		
Harald Fuchs	306	288
Dr. Harald Schrimpf	382	371
	688	**659**
Long-term remuneration components		
Harald Fuchs	0	0
Dr. Harald Schrimpf	0	0
	0	**0**
Variable remuneration		
Harald Fuchs	120	140
Dr. Harald Schrimpf	150	185
	270	**325**
Total Board of Directors	**958**	**984**

In addition, provisions for long-term remuneration components for the Board of Directors amount to EUR 292 thousand (previous year: EUR 55 thousand).

There are no pension commitments for the Board of Directors members.

Pension provisions of EUR 669 thousand (previous year: EUR 658 thousand) are reported for former Board of Directors members. Besides pension payments to former members of the governing bodies in the amount of EUR 55 thousand (previous year: EUR 55 thousand), no other benefits were paid in the 2016 financial year.

The Supervisory Board received remuneration of EUR 181 thousand (previous year: EUR 194 thousand) in the year under review:

in EUR thousand	2016	2015
Dr. Ralf Becherer	—	10
Andreas Böwing	22	—
Elena Günzler	27	29
Bernd Haus	29	30
Prof. Ulrich Wilhelm Jaroni	34	36
Uwe Seidel	27	18
Karsten Trippel	42	26
Prof. Rolf Windmöller	—	45
	181	**194**

The following numbers of shares were held by the Board of Directors and Supervisory Board members:

Number of shares	2016	2015
Dr. Harald Schrimpf	67,000	65,120
Harald Fuchs	5,023	3,023
Andreas Böwing	0	—
Bernd Haus	1,000	1,000
Elena Günzler	1,427	1,013
Prof. Ulrich Wilhelm Jaroni	0	0
Uwe Seidel	62	62
Karsten Trippel	111,322	111,322

Disclosures on the German Corporate Governance Code

PSI AG issued the statements required in accordance with section 161 of the German Stock Corporation Act on 6 December 2016. They are permanently available to the shareholders in the Investor Relations section of PSI AG's website (www.psi.de).

Berlin, 10 March 2017

Dr. Harald Schrimpf (CEO)

Harald Fuchs

GROUP

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 2016. 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, 14 March 2017

Ernst & Young GmbH
Accounting firm

Glöckner	Niebuhr
Public accountant	Public accountant

GROUP

Responsibility statement

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations and the Group management report includes a fair review of the development and 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 2017

PSI Aktiengesellschaft für Produkte und Systeme
der Informationstechnologie

The Board of Directors

Dr. Harald Schrimpf | Harald Fuchs

PSI MULTI-YEAR OVERVIEW

in EUR million	**2016**	2015	2014	2013	2012
Order situation					
New orders	182	195	184	185	188
Order backlog	129	129	120	118	118
Consolidated income statement					
Revenues	176.9	183.7	175.4	176.3	180.9
thereof Energy Management	69.2	67.2	64.2	61.0	62.3
thereof Production Management	84.2	86.4	79.6	84.1	89.4
thereof Infrastructure Management	23.5	30.1	31.6	31.3	29.2
Export share in %	45.2	49.3	48.6	52.7	47.5
Licence revenues	13.6	13.2	12.9	19.4	17.4
Licence share in %	7.7	7.2	7.4	11.0	9.6
R&D expenses	16.8	19.5	16.1	20.4	18.1
R&D ratio in %	9.5	10.6	9.2	11.6	10.0
Operating result (EBIT)	11.8	11.1	7.7 [2]	4.2	12.9
EBIT margin in %	6.7	6.0	4.4 [2]	2.4	7.1
Earnings before taxes (EBT)	11.2	9.4	5.7	3.1	11.3
Consolidated net income	8.6	7.5	4.1	0.4	9.4
Return on sales in %	4.9	4.1	2.3	0.2	5.2
Cash flow					
Cash flow from operating activities	13.3	14.0	24.1	-0.1	0.8
Cash flow from investing activities	-2.9	-2.2	-14.3	-3.7	-3.6
Cash flow from financing activities	-6.7	-2.1	-1.7	-7.2	-2.3
Investments[1]	3.2	2.9	13.1	5.1	5.2
Balance sheet					
Shareholders' equity	75.3	73.2	68.3	68.8 [2]	73.6
Equity ratio in %	37.8	36.7	35.5	38.6 [2]	39.5
Return on equity in %	11.4	10.2	6.0	0.6	12.8
Total assets	199.4	199.5	192.3 [2]	178.1 [2]	186.4
Share					
Earnings per share in EUR	0.55	0.48	0.26	0.02	0.60
Closing price at end of year in EUR	12.2	12.90	11.91	13.55	15.41
Market capitalisation on 31 December	191.5	202.5	187.0	212.7	241.9
Employees					
Number of employees on 31 December	1,619	1,650	1,714	1,692	1,591
Personnel expenses	109.3	106.8	103.6	104.2	100.9

1) company acquisitions, intangible assets, property, plant and equipment
2) adjusted

PSI QUARTERLY OVERVIEW FOR 2016

in EUR million	Q1	Q2	Q3	Q4
Order situation				
New orders	70	30	34	48
Order backlog	157	144	132	129
Income statement				
Revenues	42.6	42.5	42.8	49.0
thereof Energy Management	15.8	16.3	16.3	20.9
thereof Production Management	21.3	20.2	21.5	21.1
thereof Infrastructure Management	5.5	6.0	5.0	6.9
Operating result (EBIT)	2.2	2.4	2.4	4.9
EBIT margin in %	5.1	5.5	5.6	10.0
Earnings before taxes (EBT)	2.0	2.3	2.1	4.8
Group result	1.4	1.0	1.5	4.7
Return on sales in %	3.3	2.4	3.5	9.5
Share				
Earnings per share in EUR	0.09	0.07	0.09	0.30
Closing price at end of quarter in EUR	13.40	12.65	13.25	12.20
Employees				
Number of employees at end of quarter	1,645	1,650	1,650	1,619
Personnel expenses	27.0	27.6	26.6	28.1

FINANCIAL CALENDAR FOR 2017

Publication of annual results	22 March 2017
Analyst conference	22 March 2017
Report on first quarter	27 April 2017
Annual General Meeting	16 May 2017
Report on first half of year	27 July 2017
Report on third quarter	30 October 2017
German Equity Forum analyst conference	27 to 29 November 2017

THE PSI SHARE

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YOUR INVESTOR RELATIONS CONTACT

"In 2016, we successfully completed several pilot projects. We will also grow again with the upcoming roll-outs, after having primarily focused on improving the margin in the past year."

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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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