

Update

Accumulate

Target Price: EUR 21.70

Overview

| | |
|-----------|------------------------|
| Industry: | IT Services & Software |
| Country: | Germany |
| WKN: | A0Z1JH |
| Reuters: | PSAGn.DE |
| Website: | psi.de |

| | | |
|--------------------------|----------|-------|
| Current Price: | 20.08 | |
| | High | Low |
| Price 52W.: | 20.56 | 11.25 |
| Market Cap. (Mill. EUR) | 315.1 | |
| No. Of Shares (in Mill.) | 15.69737 | |

Shareholders

| | |
|----------------------------|--------|
| Float | 56.08% |
| RWE Rheinwestfalen Netz AG | 17.77% |
| Employee Consortium | 9.35% |
| Harvinder Singh | 8.10% |
| DWS Investment GmbH | 4.91% |

Performance

| | |
|----------|-------|
| 4 Weeks | 0.4% |
| 13 Weeks | 17.9% |
| 26 Weeks | 22.0% |
| 52 Weeks | 59.8% |
| YTD | 12.5% |

Dividend

| | in EUR | in % |
|-------|--------|------|
| 2008 | 0.00 | 0% |
| 2009 | 0.00 | 0% |
| 2010 | 0.20 | 45% |
| 2011e | 0.34 | 45% |
| 2012e | 0.40 | 45% |

52-Week Chart



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PSI AG

Q1 Comes in Strong as Expected

- The first quarter of the year came in strong. New orders developed exceptionally well in the first three months of 2011, increasing by 20 percent to EUR 54mn (Q1 2010: EUR 45mn). Within the last twelve months existing orders increased to EUR 116mn from a level of EUR 105mn. PSI achieved sales revenues in the amount of EUR 38.8mn in Q1 2011 which is equivalent to an increase of 4 percent compared to the previous year. EBITDA rose by 11% and EBIT increased by 21% compared to first quarter of last year. Earnings increased 21 percent from EUR 1.2mn to EUR 1.4mn.
- In the segment energy management year over year sales increased by 3 percent in the first quarter of 2011. Earnings results stayed roughly flat resulting in a slight decrease in margins. The segment production experienced the group's strongest year over year growth rate of 19 percent. The segment's EBIT quadrupled to EUR 0.8mn. Sales in the infrastructure management segment decreased while margins increased due to the sale of the loss bearing telecommunications unit.
- The operating cash flow marched into positive territory to EUR 2.6mn (Q1 2010: EUR minus 0.8mn), increasing the company's liquid funds to EUR 32.2mn (Q1 2010: EUR minus 19.6mn). PSI's strong financial position enables it to act fast in the face of eventual acquisition opportunities by not being dependent on external financing.
- PSI is a leader in its core segments, operating in market with high barrier of entry and strong growth trends or in the case of infrastructure of stable revenues. The company has a scalable business model and is in midst of a global expansion phase. Such PSI in a strong position and creates the conditions for further organic growth. The introduced uniform product platform will lead to increases in efficiency in the future. Therefore, the margin should rise starting next year.
- The first quarter of 2011 did not lead to any change of our view about the company's perspective. The stock price stayed around the level of our last study. Therefore we maintain or stock price target of EUR 21.70 and our recommendation "accumulate".

Key Data

| EUR m | 2008 | 2009 | 2010 | 2011e | 2012e |
|-------------|--------|--------|--------|--------|---------|
| Revenues | 128,9 | 147,0 | 158,7 | 173,2 | 191,4 |
| EBITDA | 8,87 | 11,45 | 13,94 | 20,82 | 26,17 |
| EBIT | 6,23 | 7,81 | 9,51 | 16,30 | 21,61 |
| Net Income | 4,14 | 6,60 | 7,05 | 11,87 | 13,97 |
| EPS | 0,34 | 0,46 | 0,45 | 0,76 | 0,89 |
| BVPS | 2,79 | 4,67 | 4,34 | 4,76 | 5,37 |
| CFPS | 0,65 | 0,74 | 0,78 | 1,23 | 1,56 |
| RoE | 12,28% | 9,96% | 10,35% | 15,89% | 16,58% |
| RoS | 3,21 % | 4,49 % | 4,44 % | 6,85 % | 7,30 % |
| EBIT margin | 4,84 % | 5,32 % | 6,00 % | 9,41 % | 11,29 % |

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1. Company Profile

PSI AG is a group company with over 1400 employees developing and distributing software product solutions for process control. These solutions automate complex core processes of PSI customers in the segments energy, production and infrastructure management. PSI takes on a leading position nationally and internationally. The company was founded in the year 1969 already. It operates at eleven German and 18 international sites in Europe, Asia and North America. PSI AG is listed in the Prime Standard of the German Stock Exchange.

PSI develops software products and complete systems for the operation of large energy networks and complex production and logistics processes with the objective to design customers' value creation processes more efficiently. In the segment energy management systems PSI provides solutions for operations management, network utilization, pipeline management, leakage detection and localization, portfolio management, energy trading and distribution. The segment production creates optimization and control-technical solutions for production, telematics, logistics, metals and mining. In the infrastructure segment the company supports solutions for traffic systems. A detailed overview of the company's product portfolio can be found in the appendix.

PSI's strategy is to set technological trends within its core segments. To consistently produce innovative products it invests heavily in the training of its employees and collaborates with universities. Over 80% of its employees have a universal degree mostly in engineering. PSI invests heavily in research and development. To foster the exchange of knowledge and create synergies the company developed a technique platform to support the exchange of software components across divisions and achieve the convergence of its product platforms.

PSI operates in markets with high entry barriers where it uses its experience and expertise to attain growth in its core segments and thereby achieve effects of scale and scope. When entering new product and geographic markets the company works in pilot projects together with a sector leader of the respective target area. In this arrangement PSI's customer carries part of the financing but has a bearing on the developing service. At different stages of project completion PSI attains revenue streams. The experiences made during the pilot projects are then used to produce products and services for the broad distribution in the target markets. When reasonable PSI will make small acquisitions to gain technology or market access in areas with low cost structures.

Customers in the segment energy management systems are large energy providers (e.g. Eon, RWE). PSI has a strong market leadership position in Europe. In the last year the company won every tender offer connected to renewable energy contract. The competitors are Siemens, ABB and France Schneider Electric, which mainly produce hardware products. In the segment production PSI develops applications for the sectors metals, automotive as well as mechanical and plant engineering. International group companies such as VW and ArcelorMittal as well as large mid-sized companies describe a well balance customer portfolio. In the segment infrastructure PSI operates in every German city. Contractors are mainly state organizations, such as Subway Systems of Berlin and Hamburg and Saxon State Flood Center, providing a stable revenue stream.

2. Business Development

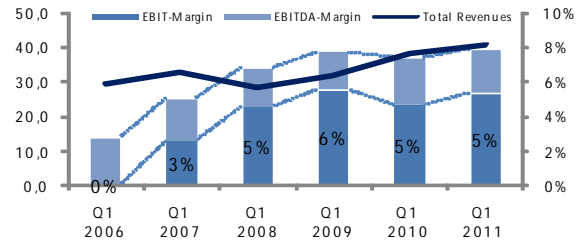
2.1. General Business Development

Q1 2011 Group Results - Absolute

| Konzern | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|
| | Q1 2006 | Q1 2007 | Q1 2008 | Q1 2009 | Q1 2010 | Q1 2011 |
| Sales | 28.4 | 32.6 | 27.4 | 30.6 | 37.1 | 38.8 |
| EBITDA | 0.8 | 1.6 | 1.9 | 2.4 | 2.8 | 3.1 |
| EBIT | 0.0 | 0.9 | 1.3 | 1.7 | 1.8 | 2.1 |
| EBT | -0.4 | 0.6 | 0.0 | 1.4 | 1.4 | 1.7 |
| EPS | -0.02 | 0.03 | 0.07 | 0.11 | 0.07 | 0.09 |

Source: Company

Q1 2011 Group Results – Margins



Source: Company

The first quarter of the year came in strong. New orders developed exceptionally well in the first three months of 2011, increasing by 20 percent to EUR 54mn (Q1 2010: EUR 45mn). Within the last twelve months existing orders increased to EUR 116mn from a level of EUR 105mn. PSI achieved sales revenues in the amount of EUR 38.8mn in Q1 2011 which is equivalent to an increase of 4 percent compared to the previous year. While personal costs grew at a similar rate than sales revenues, material costs declined by 6 percent triggering a fall in the share of material costs to sales from 16 to 14 percent. As at the same time the amortization level and the outcome of financial transaction increased only slightly in the last twelve months, sales margins improved. EBITDA rose by 11% and EBIT increased by 21% compared to first quarter of last year, showing scale effects. The tax rate stayed around 15% of EBT. Earnings increased 21 percent from EUR 1.2mn to EUR 1.4mn.

2.2. Financial Position and Business Risk

The operating cash flow marched into positive territory to EUR 2.6mn (Q1 2010: EUR minus 0.8mn), increasing the company's liquid funds to EUR 32.2mn (Q1 2010: EUR minus 19.6mn). The company's financial ratios stand far below any critical level. Being a technology company PSI has to repeatedly make large upfront investments with an uncertain outlook of a successful product placement. However the company's pilot project approach enables the company to finance the developments fully from operating cash flow and increases the chances of producing marketable innovations. As the company's global expansion calls for unaccustomed dependencies, at the same time the revenue portfolio becomes more diversified. A large share of PSI's customers belongs to economic sensitive sectors. The company decreases its business risk by reducing the share of cyclical components of its business portfolio. In the area of logistics the focus lies on the high end of the value chain where the resulting revenue streams are less economically sensitive. PSI steadily increases the share of maintenance contracts further stabilizing its revenue stream. We view the company financial position as solid. The company is aware of and mitigates its business risk. Therefore the current liquidity cushion enables PSI to act fast in the face of eventual acquisition opportunities by not being dependent on external financing.

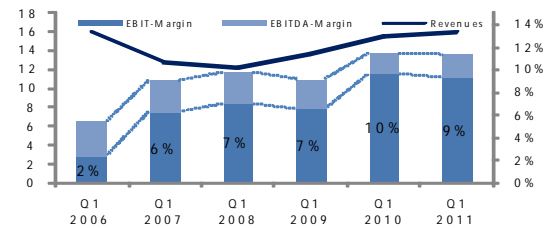
2.3. Segments

Q1 2011 Segment Energy Results - Absolute

| Segment Energy | | | | | | |
|----------------|---------|---------|---------|---------|---------|---------|
| | Q1 2006 | Q1 2007 | Q1 2008 | Q1 2009 | Q1 2010 | Q1 2011 |
| Sales | 16.0 | 12.8 | 12.2 | 13.6 | 15.5 | 16.0 |
| EBITDA | 0.9 | 1.2 | 1.2 | 1.2 | 1.8 | 1.8 |
| EBIT | 0.4 | 0.8 | 0.9 | 0.9 | 1.5 | 1.5 |
| EBT | 0.2 | 0.7 | 0.7 | 0.7 | 1.3 | 1.3 |

Source: Company

Q1 2011 Segment Energy Results – Margins



Source: Company

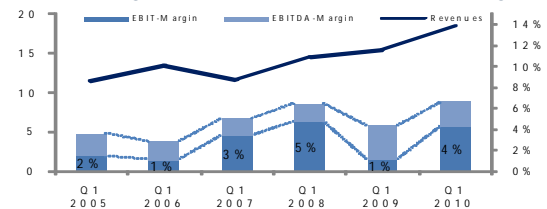
The **segment energy management** provides the second largest share of annual group sales at 41 percent, but is the largest contributor to annual group profit. Year over year sales increased by 3 percent in the first quarter of 2011. Earnings results stayed roughly flat resulting in a slight decrease in margins. The area of gas and oil continued to generate new contracts from existing customers in Russia. The performance of the area of Electric Energy suffered from the persistent investments in smart grid technology. In April 2011 the division signed a new contract with 50Hertz Transmission GmbH connected to the PSIcontrol product. Hereby the company will deliver algorithms for a network in Northern and Eastern Germany where over half of Germany's wind power is installed. PSIcontrol will replace an internal product of the network operator, which was not able to face the increasingly decentralized injection of energy supply stemming from renewable energy.

Q1 2011 Segment Production Results - Absolute

| Segment Production | | | | | | |
|--------------------|---------|---------|---------|---------|---------|---------|
| | Q1 2006 | Q1 2007 | Q1 2008 | Q1 2009 | Q1 2010 | Q1 2011 |
| Sales | 11.4 | 13.4 | 11.6 | 14.5 | 15.5 | 18.5 |
| EBITDA | 0.4 | 0.4 | 0.6 | 0.9 | 0.7 | 1.2 |
| EBIT | 0.2 | 0.1 | 0.4 | 0.7 | 0.2 | 0.8 |
| EBT | 0.0 | 0.0 | 0.3 | 0.5 | 0.0 | 0.6 |

Source: Company

Q1 2011 Segment Production Results – Margins



Source: Company

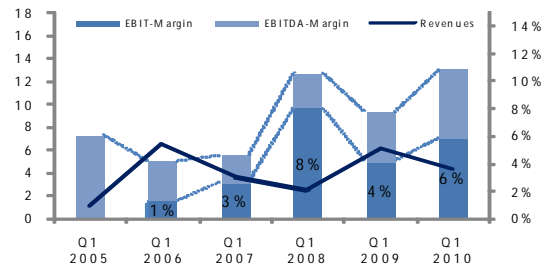
The **segment of production management** provides the largest share of group sales at 42%. In the first quarter of this year it experienced the group's strongest year over year growth rate of 19 percent. The segment's EBIT quadrupled to EUR 0.8mn. PSIPENTA benefits from the positive economic development triggering an increased demand for industrial goods and with it the need to make production processes more efficient. Since the beginning of this year over five new customer contracts were signed. Customer feedbacks mention the software's wide functionalities while at the same time it can be used on by different kinds of systems and locations. PSI Logistic GmbH could win several new customers with PSIWms.

Q1 2011 Segment Infrastructure Results - Absolute

| Segment Infrastruktur | | | | | |
|-----------------------|---------|---------|---------|---------|---------|
| | Q1 2006 | Q1 2007 | Q1 2008 | Q1 2009 | Q1 2010 |
| Sales | 1.0 | 6.5 | 3.6 | 2.4 | 6.1 |
| EBITDA | -0.3 | 0.3 | 0.2 | 0.3 | 0.5 |
| EBIT | -0.4 | 0.1 | 0.1 | 0.2 | 0.3 |
| EBT | -0.4 | 0.0 | 0.1 | 0.2 | 0.2 |

Source: Company

Q1 2011 Segment Infrastructure Results – Margins



Source: Company

Sales in the **infrastructure management segment** decreased while margins increased due to the sale of the loss bearing telecommunications unit. Large sized contracts were signed in Thailand and Malaysia which should lead to increased revenues and earnings in upcoming quarters.

2.4. Perspective

The first quarter of 2011 did not lead to any change of our view about the company's perspective. The **segment of energy management** envisions the greatest growth potential. Increasing reliance on renewable energies means a change to a decentralized network with increasing distance between energy source and target as well as increasing fluctuations in energy supply and need of energy storage. As current networks structure cannot cope with the resulting network complexity large investments in smart grid technology are necessary. Especially in developing countries an expansion of renewable energy is occurring. Possible disembarkation from nuclear energy and the demand for environmental friendly technology will spur further demand for renewable energy in developed countries as a substitute energy source. In the long term a convergence of the European electricity and gas networks is expected. PSI is looking for acquisition opportunities. This as well as a rise in electro mobility establishes the need of implementing process algorithms in low voltage networks. It remains to be seen how PSI will be able to profit from large scale projects such as Norger, Nord Stream-Pipeline and the Northsee-Offshore-Windparks. Within the **segment of production management** PSI's customers have to stem large infrastructure investments if they want expand their operations. We expect such companies, in regards to the present relative unstable global economic outlook, to abstain from large investments and rather use their current liquidity to make their production processes more efficient. The booming commodity market triggers increasing exploration and mining activity spurring demand for PSI mining products now and in the long-term. In the case of a turn in commodity market we view PSI still in a favorable position as in this case a mining company success becomes more sensitive to costs and the demand for efficient production will increase. The **segment of infrastructure management** will experience further growth as the volume in traffic in developing countries is escalating.

In 2011 the company's expects to grow especially in the markets of China, Poland and South-Asia. In 2012 new geographic markets are targeted. Further investments are planned in Poland and Malaysia. Along with the geographic expansion the company will encounter a new set of dependencies. However we view PSI as well positioned to reach its growth target without greater complications using its experience gained from existing large contracts in foreign markets and its pilot project approach. As a market leader in its core segments we believe PSI is well positioned to profit from the above trends and generate significant effects of scale leading to improved margins. As a further upside potential the company works on increasing its share of large rollout contracts enabling it to receive large upfront payments and a larger share of maintenance

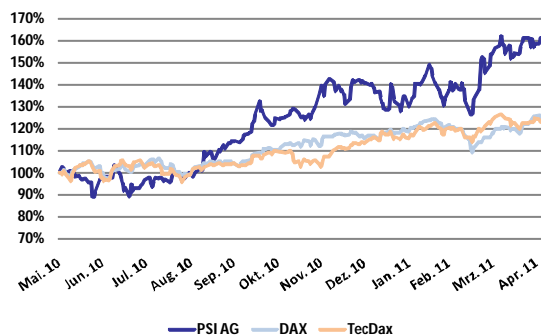
revenue.

Overall research and development costs should decrease in 2011 as investments in the prior year are finalized. The product platform, developed in 2010, should reduce product developing costs and produce further scale and scope effects. Already the cross segmental revenue streams picked up on growth. Material costs are expected to remain stable around last year's level. In the long term the company expects its personal expenditures per employee to increase to international industry standards.

We believe the company will reach its 2011 goal of new orders totaling EUR 185mn, revenues of EUR 170mn and operating results of more than EUR 13mn. Fourth Quarter results underlined our expectations and therefore we remain at our fair value of EUR 21.70 per share.

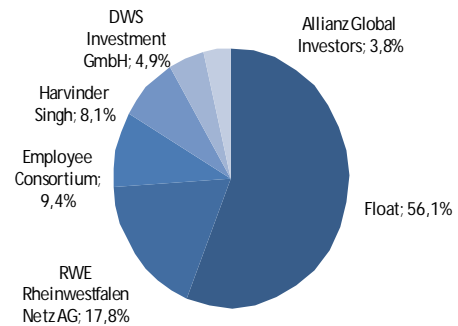
3. Stock & Shareholder Structure

Stock Price Development



Source: Reuters

Shareholder Structure



Source: Company

The stock of PSI AG is performing significantly better than the DAX and the TecDAX. Encountering a weak phase in May until July last year, the stock roused to a then new twelve month high in October 2010. Since then stock moved sideways in the range of 140% to 160% holding up against the recent market turmoil. Recently the stock picked up on dynamic hitting a new all time high giving it a performance of 60% during the last twelve months. During the same period the DAX and TecDAX each gained about 25%.

Some stakeholders seem to have taken some profits out of the recent stock's performance. The employee consortiums share decreased slightly from a level compared to last quarter. The employee consortium bundles the voting shares of current and past employees. It has the goal to achieve a stabilization of the stock price in the long-term by giving a consensus vote at the annual shareholder meeting. A total of 4.09 percent of the consortium's shares are pooled. A sale of pooled share is only possible at the end of each year and after it has to been approved or the membership of the consortium it terminated with a notice period of three months. The employee consortium's shares, which are not pooled, can be viewed as belonging to the float.

4. Financials

4.1. Profit & Loss Statements

| Profit & Loss Statement - PSI AG | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Figures in k€ | Fiscal year | | | | | | |
| | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e | 2014e |
| Revenues | 128,851 | 146,985 | 158,688 | 173,241 | 191,381 | 209,103 | 228,542 |
| Other Operating Income | 2,449 | 3,590 | 6,655 | 4,231 | 5,067 | 5,318 | 4,872 |
| Increase/decrease in inventory and WIP | -48 | 71 | 60 | 250 | 382 | 374 | 410 |
| Cost of material | -22,142 | -28,487 | -26,303 | -28,238 | -31,195 | -34,084 | -37,252 |
| Gross income | 109,110 | 122,159 | 139,100 | 149,484 | 165,635 | 180,710 | 196,572 |
| Personnel expenses | -75,331 | -83,628 | -94,163 | -97,955 | -105,820 | -114,270 | -122,265 |
| Depreciation and amortization | -2,638 | -3,631 | -4,425 | -4,514 | -4,559 | -4,650 | -4,743 |
| Other operating expenses | -24,911 | -27,086 | -30,998 | -30,490 | -33,318 | -35,547 | -38,395 |
| Operating Result | 6,230 | 7,814 | 9,514 | 16,525 | 21,938 | 26,243 | 31,169 |
| Interest income | 682 | 607 | 189 | 613 | 565 | 535 | 678 |
| Interest expense | -1,632 | -1,758 | -1,883 | -2,074 | -2,222 | -2,398 | -2,599 |
| Income from investments in associates | 0 | 282 | 58 | 0 | 0 | 0 | 0 |
| Earnings before taxes | 5,280 | 6,945 | 7,878 | 15,064 | 20,282 | 24,380 | 29,247 |
| Taxes on income | -1,140 | -342 | -831 | -4,519 | -6,085 | -7,314 | -8,774 |
| Consolidated net profit | 4,140 | 6,603 | 7,047 | 10,544 | 14,197 | 17,066 | 20,473 |
| Shares outstanding (thousand) | 12,082 | 14,201 | 15,697 | 15,697 | 15,697 | 15,697 | 15,697 |
| Earnings per share | 0.34 | 0.46 | 0.45 | 0.67 | 0.90 | 1.09 | 1.30 |
| Profit & Loss (Year on Year) | | | | | | | |
| Revenues | 4.6% | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % |
| Other Operating Income | -23.1% | 0.5 % | 0.9 % | -0.4 % | 0.2 % | 0.0 % | -0.1 % |
| Increase/decrease in inventory and WIP | 33.3% | 2.5 % | -0.2 % | 3.2 % | 0.5 % | 0.0 % | 0.1 % |
| Cost of material | -13.7% | 0.3 % | -0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % |
| Gross income | 8.4% | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % |
| Personnel expenses | 5.0% | 0.1 % | 0.1 % | 0.0 % | 0.1 % | 0.1 % | 0.1 % |
| Depreciation and amortization | -15.4% | 0.4 % | 0.2 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % |
| Other operating expenses | 14.7% | 0.1 % | 0.1 % | 0.0 % | 0.1 % | 0.1 % | 0.1 % |
| Operating Result | 53.3% | 0.3 % | 0.2 % | 0.7 % | 0.3 % | 0.2 % | 0.2 % |
| Interest income | 48.6% | -0.1 % | -0.7 % | 2.2 % | -0.1 % | -0.1 % | 0.3 % |
| Interest expense | 3.1% | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % | 0.1 % |
| Income from investments in associates | N.A. | N.A. | -0.8 % | -1.0 % | N.A. | N.A. | N.A. |
| Earnings before taxes | 79.5% | 0.3 % | 0.1 % | 0.9 % | 0.3 % | 0.2 % | 0.2 % |
| Taxes on income | 6.1% | -0.7 % | 1.4 % | 4.4 % | 0.3 % | 0.2 % | 0.2 % |
| Net income | 121.7% | 0.6 % | 0.1 % | 0.5 % | 0.3 % | 0.2 % | 0.2 % |
| Profit & Loss (% of Revenues) | | | | | | | |
| Revenues | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Other Operating Income | 1.9% | 2.4% | 4.2% | 2.4% | 2.6% | 2.5% | 2.1% |
| Increase/decrease in inventory and WIP | 0.0% | 0.0% | 0.0% | 0.1% | 0.2% | 0.2% | 0.2% |
| Cost of material | -17.2% | -19.4% | -16.6% | -16.3% | -16.3% | -16.3% | -16.3% |
| Gross income | 84.7% | 83.1% | 87.7% | 86.3% | 86.5% | 86.4% | 86.0% |
| Personnel expenses | -58.5% | -56.9% | -59.3% | -61.7% | -61.1% | -59.7% | -58.5% |
| Depreciation and amortization | -2.0% | -2.5% | -2.8% | -2.6% | -2.4% | -2.2% | -2.1% |
| Other operating expenses | -19.3% | -18.4% | -19.5% | -17.6% | -17.4% | -17.0% | -16.8% |
| Operating Result | 4.8% | 5.3% | 6.0% | 9.5% | 11.5% | 12.6% | 13.6% |
| Interest income | 0.5% | 0.4% | 0.1% | 0.4% | 0.3% | 0.3% | 0.3% |
| Interest expense | -1.3% | -1.2% | -1.2% | -1.2% | -1.2% | -1.1% | -1.1% |
| Income from investments in associates | 0.0% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Earnings before taxes | 4.1% | 4.7% | 5.0% | 8.7% | 10.6% | 11.7% | 12.8% |
| Taxes on income | -0.9% | -0.2% | -0.5% | -2.6% | -3.2% | -3.5% | -3.8% |
| Net income | 3.2% | 4.5% | 4.4% | 6.1% | 7.4% | 8.2% | 9.0% |

Dr. Kalliwoda | Research © 2011

4.2. Balance Sheet

| Balance Sheet - PSI AG | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Figures in k€ | Fiscal year | | | | | | |
| | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e | 2014e |
| Assets | | | | | | | |
| <u>Non-current assets</u> | | | | | | | |
| Property, plant and equipment | 8,002 | 9,344 | 13,710 | 13,984 | 14,264 | 14,549 | 14,840 |
| Intangible assets | 18,658 | 48,585 | 46,591 | 47,523 | 48,473 | 49,443 | 50,432 |
| Investments in associates | 0 | 359 | 401 | 401 | 401 | 401 | 401 |
| Other financial investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| deferred tax assets | 2,373 | 2,904 | 4,310 | 1,147 | 0 | 0 | 0 |
| Sum non-current assets | 29,033 | 61,192 | 65,012 | 63,055 | 63,138 | 64,393 | 65,673 |
| <u>Current assets</u> | | | | | | | |
| Inventories | 1,681 | 2,837 | 3,402 | 3,652 | 4,035 | 4,408 | 4,818 |
| Trade receivables, net | 23,253 | 33,751 | 27,938 | 30,500 | 33,694 | 36,814 | 40,236 |
| Receivables from ,ong-term development contracts | 22,636 | 32,686 | 37,242 | 39,104 | 41,059 | 43,112 | 45,268 |
| Other assets | 2,365 | 3,504 | 6,682 | 7,350 | 8,085 | 8,894 | 9,783 |
| Cash and cash equivalents | 23,650 | 20,765 | 28,882 | 38,823 | 46,147 | 54,359 | 64,124 |
| Sum current assets | 73,585 | 93,543 | 104,146 | 119,429 | 133,020 | 147,587 | 164,229 |
| Total assets | 102,618 | 154,735 | 169,158 | 182,484 | 196,158 | 211,980 | 229,902 |
| Equity and Liabilities | | | | | | | |
| <u>Shareholders' equity</u> | | | | | | | |
| Subscribed capital | 30,464 | 40,185 | 40,185 | 40,185 | 40,185 | 40,185 | 40,185 |
| Capital reserves | 31,642 | 35,244 | 35,137 | 35,137 | 35,137 | 35,137 | 35,137 |
| Retained earnings | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reserve for Treasury stock | -26 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other reserves | 275 | -1,589 | -3,526 | -1,084 | -1,084 | -1,084 | -1,084 |
| Accumulated losses | -28,632 | -7,551 | -3,706 | 2,093 | 9,902 | 19,288 | 30,549 |
| Sum equity | 33,723 | 66,289 | 68,090 | 77,415 | 85,224 | 94,610 | 105,871 |
| <u>Non-current liabilities</u> | | | | | | | |
| Non-current loans | 0 | 843 | 5,674 | 5,071 | 4,096 | 3,296 | 2,496 |
| Pension provisions | 26,653 | 30,096 | 33,610 | 34,282 | 34,968 | 35,667 | 36,381 |
| Deferred tax liabilities | 2,164 | 2,314 | 1,670 | 1,804 | 1,948 | 2,104 | 2,272 |
| Other non-current liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sum non-current liabilities | 28,817 | 33,253 | 40,954 | 41,157 | 41,012 | 41,067 | 41,149 |
| <u>Current liabilities</u> | | | | | | | |
| Trade payables | 9,558 | 14,610 | 15,410 | 16,544 | 18,276 | 19,968 | 21,825 |
| Other liabilities | 18,113 | 23,147 | 25,773 | 27,359 | 29,861 | 32,594 | 35,168 |
| Liabilities from long-term development contracts | 11,126 | 15,398 | 16,154 | 17,769 | 19,546 | 21,501 | 23,651 |
| Financial liabilities | 341 | 1,561 | 2,485 | 2,239 | 2,239 | 2,239 | 2,239 |
| Provisions | 940 | 477 | 292 | 857 | 857 | 857 | 857 |
| Sum current liabilities | 40,078 | 55,193 | 60,114 | 63,911 | 69,922 | 76,302 | 82,883 |
| Total equity and liabilities | 102,618 | 154,735 | 169,158 | 182,484 | 196,158 | 211,980 | 229,902 |

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4.3. Cash Flow Statement

| Cash Flow Statement - PSI AG | | | | | | | |
|---|---------------|----------------|---------------|---------------|---------------|---------------|----------------|
| Figures in k€ | Fiscal year | | | | | | |
| | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e | 2014e |
| 1. Cash flow from operating activities | | | | | | | |
| Consolidated net loss before tax | 5,280 | 6,945 | 7,878 | 15,064 | 20,282 | 24,380 | 29,247 |
| Amortization of intangible assets | 992 | 1,758 | 2,298 | 2,257 | 2,279 | 2,325 | 2,371 |
| Depreciation of property, plant and equipment | 1,617 | 1,873 | 2,126 | 2,257 | 2,279 | 2,325 | 2,371 |
| Losses from the disposal of assets | 33 | 28 | 29 | 30 | 29 | 29 | 29 |
| Interest income | -682 | -437 | -189 | -613 | -565 | -535 | -678 |
| Interest expense | 1,632 | 1,758 | 1,883 | 2,074 | 2,222 | 2,398 | 2,599 |
| Foreign exchange gain/loss | -148 | 1 | 338 | 0 | 0 | 0 | 0 |
| Other non-cash income/expenses | 0 | -166 | -36 | 0 | 0 | 0 | 0 |
| Gross cash flow | 8,724 | 11,760 | 14,327 | 21,069 | 26,526 | 30,922 | 35,941 |
| <u>Change in working capital</u> | | | | | | | |
| Change in inventories | 712 | 2,260 | -531 | -250 | -382 | -374 | -410 |
| Change in trade receivables | -4,225 | -10,198 | -707 | -4,424 | -5,149 | -5,173 | -5,578 |
| Change in other assets | 1,136 | -824 | -4,605 | -668 | -735 | -809 | -889 |
| Change in provisions | -1,286 | -1,503 | -1,142 | 806 | 830 | 855 | 882 |
| Change in trade payables | -12 | 2,291 | 1,033 | 2,749 | 3,509 | 3,647 | 4,007 |
| Change in other liabilities | 5,705 | 1,269 | 6,147 | 1,586 | 2,502 | 2,733 | 2,574 |
| Interest paid | -90 | -161 | -188 | -269 | -236 | -214 | -197 |
| Income taxes paid | -771 | -493 | -852 | -4,519 | -6,085 | -7,314 | -8,774 |
| Cash flow from operating activities | 9,893 | 4,401 | 13,482 | 16,079 | 20,780 | 24,274 | 27,555 |
| 2. Cash flow from investment activities | | | | | | | |
| Additions to intangible assets | -338 | -477 | -313 | -415 | -382 | -418 | -420 |
| Additions to property, plant and equipment | -1,792 | -2,394 | -6,565 | -3,115 | -4,053 | -5,274 | -6,862 |
| Additions to financial assets | 0 | -77 | -160 | -110 | -142 | -153 | -153 |
| Disposals of separation from intangible assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals of property, plant and equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals of financial assets | 20 | 0 | 25 | 166 | 112 | 146 | 158 |
| Additions to investments in subsidiaries, minus cash acquired | -3,098 | -13,350 | 0 | 0 | 0 | 0 | 1 |
| Interest received | 682 | 429 | 189 | 433 | 350 | 324 | 369 |
| Cash flow from investment activities | -4,526 | -15,869 | -6,824 | -3,040 | -4,115 | -5,375 | -6,908 |
| 3. Cash flow from financing activities | | | | | | | |
| Change in subscribed capital | 0 | 3,046 | 0 | 0 | 0 | 0 | 0 |
| Outflows for share buybacks | -701 | -1 | 0 | 0 | 0 | 0 | 0 |
| Changes in capital reserves | 0 | 6,001 | 0 | 0 | 0 | 0 | 0 |
| Inflows from current financial liabilities incurred | 36 | -463 | 0 | -246 | 0 | 0 | 0 |
| Inflows from long-term financial liabilities incurred | 0 | 0 | 4,661 | -603 | -975 | -800 | -800 |
| Dividends paid out | 0 | 0 | -3,202 | -4,745 | -6,389 | -7,680 | -9,213 |
| Cash flow from financing activities | -665 | 8,583 | 1,459 | -5,594 | -7,364 | -8,480 | -10,013 |
| 4. Cash and cash equivalents at end of period | | | | | | | |
| Changes in cash and cash equivalents | 4,702 | -2,885 | 8,117 | 7,445 | 9,301 | 10,419 | 10,634 |
| Cash and cash equivalents at beginning of period | 18,948 | 23,650 | 20,765 | 28,882 | 36,327 | 45,628 | 56,048 |
| Cash and cash equivalents at end of period | 23,650 | 20,765 | 28,882 | 36,327 | 45,628 | 56,048 | 66,682 |

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5. Valuation

5.1.DCF-Model

In order to determine the fair value, we established a three-stage discounted cash flow model and used market data for peer group companies. All data are based on the consolidated financial statements.

Through discounting operative free cash flows to the valuation date we accommodated the during the period valuation date. As the valuation date we chose the first of May 2011. As far as non operating assets are concerned, their value was derived separately and added to the present value of payouts.

Tying in with this, the phase of terminal value follows, for which we calculated with a growth rate of 2.5% p.a.

/ Discounted Cash Flow-Model (Basis 2011/5)

| (m EUR) | <i>Phase 1</i> | | | | | |
|--|----------------|--------------|--------------|--------------|--------------|--------------|
| | 2011e | 2012e | 2013e | 2014e | 2015e | 2016e |
| Revenues | 173.2 | 191.4 | 209.1 | 228.5 | 246.9 | 263.5 |
| Rate of change | 10% | 10% | 9% | 9% | 8% | 7% |
| EBIT | 16.5 | 21.9 | 26.2 | 31.2 | 35.0 | 36.8 |
| Rate of change | 307% | 33% | 20% | 19% | 12% | 5% |
| Margin | 9.5% | 11.5% | 12.6% | 13.6% | 14.2% | 14.0% |
| Interest and Shareholding Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBT | 16.5 | 21.9 | 26.2 | 31.2 | 35.0 | 36.8 |
| Operational tax expenses | -4.5 | -6.1 | -7.3 | -8.8 | -9.8 | -10.4 |
| Effective Tax Rate (ex. Interest Income) | 27.3% | 27.7% | 27.9% | 28.2% | 28.2% | 28.3% |
| Depreciation and Amortization | 4.5 | 4.6 | 4.6 | 4.7 | 4.8 | 4.9 |
| Depreciation Ratio (% Revenues) | 2.6% | 2.4% | 2.2% | 2.1% | 2.0% | 1.9% |
| Changes in long-term provisions | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Proportion of Revenues | 0.4% | 0.4% | 0.3% | 0.3% | 0.3% | 0.3% |
| Cash Flow -Business needs (change WC) | -0.5 | 0.3 | 0.7 | 0.4 | 0.9 | -1.8 |
| Working-Capital-Ratio (%Revenues) | -0.3% | 0.2% | 0.3% | 0.2% | 0.4% | -0.7% |
| Investments into fixed assets | -3.5 | -4.5 | -5.7 | -7.3 | -9.4 | -9.4 |
| Investments ratio (% Revenues) | -2.0% | -2.3% | -2.7% | -3.2% | -3.8% | -3.6% |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Free Cash-Flow | 13.2 | 17.0 | 19.2 | 21.0 | 22.2 | 20.9 |

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5.2. WACC

The discount rate was calculated by deriving the weighted average cost of capital. We assume that the target capital structure will not change in the subsequent business years.

WACC Assumptions

Growth Propositions

| | |
|-----------------------------------|---------|
| Long-Term growth rate / Inflation | 2.5% |
| Assimilation Phase (from 2015) | 5 years |
| Revenue growth in the beginning | 1.0% |
| Margin development (p.a.) | +3 BP |

Equity Cost

| | |
|-------------------------------------|------|
| Long-Term risk-free rate | 3.8% |
| Market Risk Premium | 5.0% |
| Beta of the Company / Approximation | 1.03 |

Equity Cost

9.0%

Debt Cost

| | |
|---------------------------|-------|
| Debt Cost (before tax) | 7.0% |
| Tax rate on Debt interest | 30.0% |

Debt Cost (after tax)

4.9%

| | |
|--------------------------|------|
| Equity Value | 315 |
| Market Value of net debt | 8 |
| Gearing (Market Values) | 2.6% |

WACC

8.85%

Adjustments for debt to current interest were not made. Risk free profitability is based on the average profitability of the 30-year treasury bond.

Figuring a risk prime follows the capital asset pricing model (CAPM) and covers in particular the systemic risks (market risk prime esp. company specific risk). The beta value we used to identify the company specific risk is based on the performance of the reference index DAX.

5.3. Fair Value – Sensitivstes

Our derived fair value per share amounts to EUR 21.70. This implies an upside potential of 7.5 % to the current share price (EUR 20.20). The modification of the action parameter in terminal value is shown below in the sensitivity analysis. It shows variance in our derived fair value in variant scenarios.

| Sensitivity analysis | | Fair value per share | | | | |
|----------------------|------|----------------------|-------|--------------|-------|-------|
| EUR | | Discount rate | | | | |
| $\beta = 1.03$ | | 8.35% | 8.60% | 8.85% | 9.10% | 9.35% |
| G % p | 1.5% | 22.10 | 21.23 | 20.43 | 19.68 | 18.97 |
| | 2.0% | 22.83 | 21.89 | 21.02 | 20.21 | 19.45 |
| | 2.5% | 23.69 | 22.65 | 21.70 | 20.82 | 20.00 |
| | 3.0% | 24.71 | 23.56 | 22.50 | 21.53 | 20.64 |
| | 3.5% | 25.93 | 24.63 | 23.45 | 22.37 | 21.39 |

| Sensitivity analysis | | Market capitalization | | | | |
|----------------------|------|-----------------------|--------|---------------|--------|--------|
| EUR m | | Discount rate | | | | |
| $\beta = 1.03$ | | 8.35% | 8.60% | 8.85% | 9.10% | 9.35% |
| G % p | 1.5% | 346.96 | 333.38 | 320.72 | 308.91 | 297.87 |
| | 2.0% | 358.46 | 343.68 | 329.99 | 317.27 | 305.42 |
| | 2.5% | 371.92 | 355.68 | 340.72 | 326.89 | 314.07 |
| | 3.0% | 387.90 | 369.82 | 353.28 | 338.09 | 324.08 |
| | 3.5% | 407.17 | 386.74 | 368.19 | 351.29 | 335.81 |

Appendix

Segment Energy

PSI Division Electrical Energy

| | |
|-------------|--|
| PSIcontrol: | Control system for managing electricity grids. |
| PSIcommand: | Assignment system for maintenance and disturbance management in energy networks. |
| PSIpassage: | Grid utilization management for operators of electrical transportation and distribution grids. |

PSI Division Gas and Oil

| | |
|---------------|--|
| PSIcontrol: | Control system for the oil and gas market. |
| PSIcomcentre: | Modular communication system for communication amongst market participants in the energy market. |
| PSIfetch: | Remote meter readout, remote parameterisation, monitoring of incoming calls for the gas market. |
| PSIganesi: | Network simulation system for the gas market. |
| PSIpipelines: | Pipeline management system for oil and gas pipelines. |
| PSItransport: | Transportation management system for the gas market. |

PSI Büsing und Buchwald GmbH

| | |
|------------|---|
| DAISY: | System for the allocation and invoicing of special contracts in the liberalized gas market. |
| GAPS: | Analysis and planning system for the gas sector. |
| PSImarket: | Energy trading and sales system. |
| R-Win®: | Solution for the technical auditing and calibration of gas metering systems. |

PSI Nentec GmbH

| | |
|-----------------|--|
| PSIcontrol/FG: | guaranties a flexible, scaleable and secure process interfacing of telecontrol substations to the control center in the area of energy |
| PSIcommand/CBX: | The CommBox is a powerful on-board unit for telematic applications inside emergency vehicles. |

Segment Production

PSI Production GmbH

| | |
|-------------|--|
| PSImining: | Instrumentation and control of the production supervision of mines. |
| PSItraffic: | Supervision and visualisation of the infrastructure of the traffic telematics. |

PSI Metals Group

| | |
|------------|---|
| PSImetals: | Complete sector solution for the entire value added chain in the metals industry. |
|------------|---|

PSIPENTA Software Systems GmbH

| | |
|-----------------|---|
| PSImes: | Modular Manufacturing Execution System for manufacturing companies. |
| PSIpps: | Production and Planning System (PPS) for the machine and plant construction industry and the automobile. |
| PSIpenta: | Enterprise Resource Planning (ERP) solution for the machine and plant construction and the automobile industry. |
| PSImaintenance: | Solution for the maintenance and repair of machines, plants and vehicles. |

PSI Logistics GmbH

| | |
|-------------|---|
| PSIglobal: | Software for planning, analysis and optimisation of logistics networks. |
| PSItrms: | Optimizes transportation processes, supports routine activities, assures transparency in the transportation planning. |
| PSIwms: | Warehouse Management System for industrial and logistics companies. |
| PSIcontrol: | Control System for visualisation, tracking and tracing of logistics processes. |
| PSIairport: | Solutions with a focus on passenger, baggage and cargo handling. |

F/L/S Fuzzy Logik Systeme GmbH

| | |
|---------------|---|
| Qualicision®: | Qualicision® is a software and consulting concept aimed at assuring and optimizing the process quality by means of intelligent data collection, analysis and balance between target and criteria conflicts. |
|---------------|---|

Segment Infrastructure

PSI Transcom GmbH - Division Public Transportation

| | |
|--------------------------|---|
| <i>PSITraffic:</i> | PSITraffic is a powerful automated platform for visualizing, monitoring and dispatching as well as for managing vehicles and transport processes in public transport. |
| <i>PSITraffic/ITCS:</i> | Automated Vehicle Management for buses, trams and trains in public transport, group call. |
| <i>PSITraffic/Info:</i> | State-of-the-art passenger information, innovative display technologies, passenger information via internet or mobile devices, acoustic announcements. |
| <i>PSITraffic/Depot:</i> | Depot Management for buses and trams with fully automatic disposition, failure management, central control of unmanned depots, real-time RFID-tracking. |

PSI Transcom GmbH - Division Safety

| | |
|--------------------|--|
| <i>PSIcontrol:</i> | Control system for monitoring data and predicting environmental disasters. |
|--------------------|--|

Source: Company

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