

June 8, 2010

Small Cap | Europe | Germany

DR. KALLIWODA
RESEARCH GmbH

Update

BUY

PSI AG

Estimates adjusted 

Target Price: EUR 13.40

Industry: Software/Technology
Country: Germany
WKN: A0Z1JH
Reuters: PSAGn.DE
Website: www.psi.de

Curr. Price: 12.32
High **Low**
Price 52 W.: 12.63 7.15
Market Cap. (Mill. EUR) 193.42
No. of Shares (in Mill.) 15.70

Shareholders

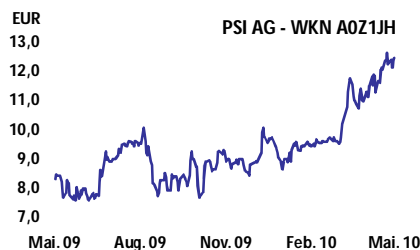
Freefloat 55.11%
RWE Rheinland Westfalen
Netz AG 17.77%
Employee Consortium
(incl. 4,09% pooled) 10.61%
DWS Investment GmbH 8.41%
Harvinder Singh 8.10%

Performance

4 Weeks 11.7%
13 Weeks 30.9%
26 Weeks 38.4%
52 Weeks 48.4%
Curr. Year 33.9%

Dividend

	in EUR	in %
2008	0.00	0.00
2009	0.00	0.00
2010e	0.21	0.50
2011e	0.37	0.50



Dr. Norbert Kalliwoda
nk@kalliwoda.com

Kolja Schick – Freiherr von Flotow
ks@kalliwoda.com

Phone: +49 69 97 20 58 53
www.kalliwoda.com

Demand on the rise

- PSI AG, currently employing 1400 staff, focuses on the development and distribution of solutions for process control with in-house developed software products. These solutions automate complex core processes for PSI customers in the segments energy, production and infrastructure management. PSI takes on a leading position nationally as well as internationally. The company was founded back in 1969. PSI executes eleven sites in Germany and 18 sites internationally in Europe, Asia and North America. PSI stock is listed in the Prime Standard of the German Stock Exchange.
- In the first three months of 2010 PSI's revenue rose by 21 % compared to the previous year's quarter. This complies with sales revenue of EUR 37.1mn. EBITDA and EBIT could be raised as well. Earnings before interest, taxes, depreciation and amortization added up to EUR 2.8mn and were 16 % higher than last year. EBIT rose from EUR 1.7mn in Q1 2009 to EUR 1.8mn this year.
- All segments could increase their revenues. Concerning EBIT the segment production management had to take losses mainly due to one-off expenses. The segments energy and infrastructure management however could raise their EBITs. Last year's acquisitions also helped to increase revenue and EBIT.
- Order inflow rose in Q1 and in the beginning of Q2 PSI was able to secure additional contracts. We are convinced that the company will grow significantly in the Asian market. Furthermore PSI, being the market leader in Europe, should be able to profit from new developments in the energy sector (smart grids and super grids).
- We have positively adjusted our estimates and conclude with a fair value of EUR 13.42.

EUR m	2008	2009	2010E	2011E	2012E
Revenues	128.9	147.0	161.2	172.5	182.8
EBITDA	8.87	11.45	15.47	17.89	21.65
EBIT	6.23	7.81	12.05	14.40	18.13
Net Income	4.14	6.60	9.60	11.76	13.34
EPS	0.34	0.46	0.61	0.75	0.85
BVPS	2.79	4.67	4.97	5.69	6.51
CFPS	0.65	0.74	0.90	1.05	1.29
RoE	0.12 %	0.10 %	0.12 %	0.13 %	0.13 %
RoS	3.21 %	4.49 %	5.96 %	6.82 %	7.30 %
EBIT margin	4.84 %	5.32 %	7.47 %	8.35 %	9.91 %

Content

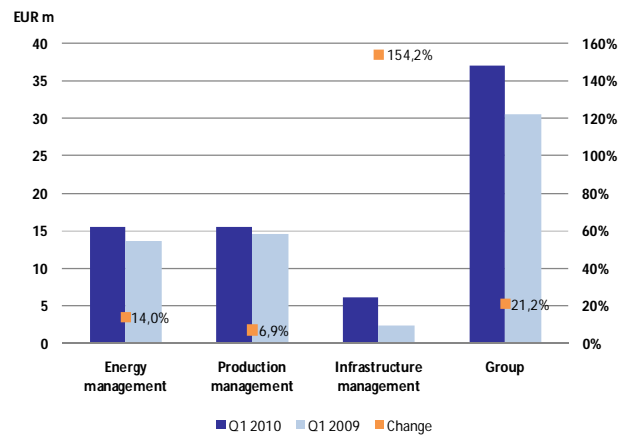
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1 Current Development

In the first three months of 2010 PSI's revenue rose by 21 % compared to the previous year's quarter. This complies with sales revenue of EUR 37.1mn. EBITDA and EBIT could be raised as well. Earnings before interest, taxes, depreciation and amortization added up to EUR 2.8mn and were 16 % higher than last year. EBIT rose from EUR 1.7mn in Q1 2009 to EUR 1.8mn this year.

Each one of the company's three segments could raise their revenues compared to the first quarter in 2009.

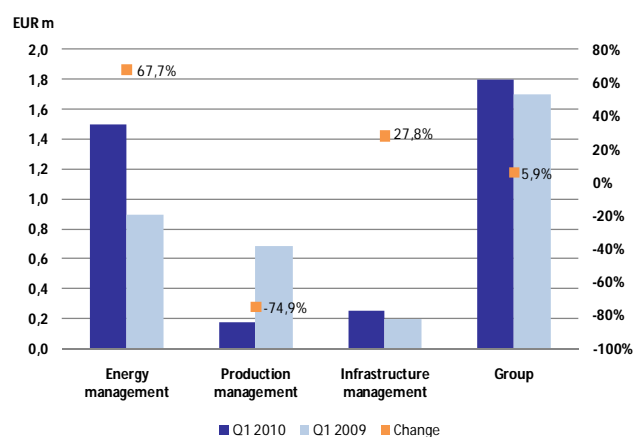
Revenues by Segments



Source: Company

The segment energy management was able to secure several important contracts in Q1. Therefore revenue increased by 14 % to EUR 15.5mn. EBIT could be raised as well, from EUR 0.9mn a year ago to EUR 1.5mn in 2010. The division product management increased its revenue by 7 % in comparison with Q1 2009. EBIT declined significantly by 75 % down to EUR 0.2mn, which was partially due to one-time expenses.

EBIT by Segments



Source: Company

The segment infrastructure management could more than double its revenue from EUR 2.4mn in the year-ago quarter to now EUR 6.1mn. However this must be partially attributed to the acquisition of the inControl Tech Group during the fiscal year 2009. EBIT was successfully raised by 28 %, despite investments to the newly founded subsidiary Cellls GmbH.

Order backlog on March 31, 2010 was lower than the value in the past year. But PSI was able to secure new orders totalling EUR 45.0mn, which complies with an increase of 7 % compared to Q1 2009.

2 Outlook

Since beginning of the year demand in the energy markets and heavy industry has been on the rise. Also the beginning of second quarter proceeded promising. Several orders from existing as well as new customers could be secured. The management expects rising demand and therewith continuing growth in future months, especially in the areas of energy and infrastructure management. Regionally South East Asia, where PSI is positioned with the acquisition of the inControl Tech Group, should account significantly to the growth.

Spirit in the logistics industry is getting more and more positive. Danske Bank's European Freight Forwarding Index resides on an all time high, reflecting the expectations of surveyed firms for the close future. According to a Creditreform study however, the outlook in the branch logistics is less auspicious. Here a decline in volume is expected. We therefore expect a recovery of the logistics segment for PSI in the medium to long term. Consequently the subsidiary PSI Logistics could temporarily continue to put a strain on the production management results. The industry segment will be dependent on the economic development. However we anticipate PSI's solutions for efficiency improvement to be in demand even in case of a slow economic recovery. Furthermore the company can profit from growth in foreign countries (especially China).

With the advancements of smart grids and super grids we see great potential for PSI in the energy management segment. The project "Transgreen" in France functions as a co-operation partner for "Desertec", an initiative mostly dominated by German companies, which is looking to produce solar energy in the deserts of Northern Africa. Transgreen is planning to install under water conductors to facilitate the transportation of energy produced in Northern Africa to Europe. This example documents how the areas of energy transport and energy management in Europe show innovative enhancements searching for intelligent solutions for power networks. We are convinced that PSI, as leading European supplier, can profit from this development with its solutions for electricity control systems. We anticipate great growth potential in the energy management segment.

For the segment infrastructure we see chances for growth mainly overseas. PSI is well positioned abroad, with subsidiaries in Eastern Europe and Asia. In Malaysia the subsidiary inControl Tech could finalize an order from the country's largest energy provider. The order involves the expansion of the existing management system for the control centre as well as the supply of a back-up control centre. Upon completion of the project, regulation of the distribution network for the entire Malaysian peninsula will be carried out via a uniform PSI-operated platform.

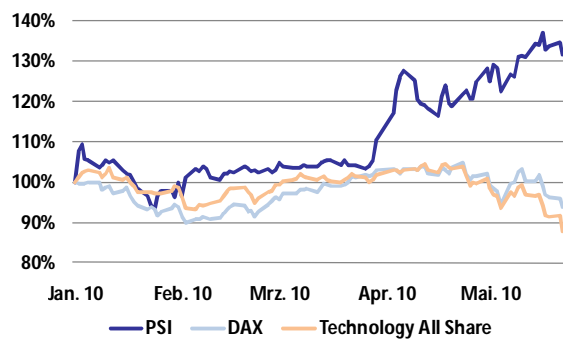
We positively acknowledge the efforts to increase efficiency (convergence of software platforms within the business), which will lead to cost reductions in the future.

In Accordance to the positive results presented and the unimpaired favourable outlook we raise our estimations. The new fair value lies at EUR 13.42 per share.

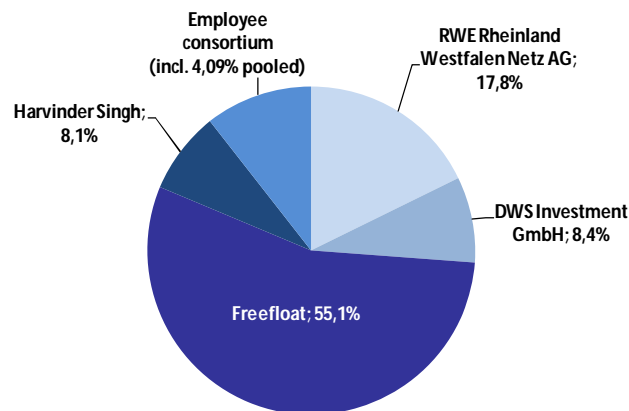
3 Share

In 2010 shares of PSI AG continued their trend from the previous year and rose to a high of EUR 12.62. After a short slump in February PSI shares were able to beat both the German Stock Index (DAX) and the Technology All Share Index clearly. While both indices recorded only small gains in beginning of the year and are now in negative year-to-date numbers, PSI gained significantly. Since April a strong rise has been recorded. The year-to-date performance is explicitly above 30 %.

Stock Price Development 2010



Shareholder Structure



Source: Company

4 Financials

5 Profit & Loss Statement

Profit & Loss Statement - PSI AG							
Figures in k€	Fiscal year						
	2007	2008	2009	2010e	2011e	2012e	2013e
Revenues	123,184	128,851	146,985	161,200	172,484	182,833	191,975
Other Operating Income	3,183	2,449	3,590	3,074	3,038	3,396	3,169
Increase/decrease in inventory and WIP	-72	-48	71	-16	2	20	2
Cost of material	-25,646	-22,142	-28,487	-29,500	-31,544	-33,087	-34,994
Gross income	100,649	109,110	122,159	134,758	143,979	153,162	160,152
Personnel expenses	-71,745	-75,331	-83,628	-90,272	-95,729	-100,558	-103,666
Depreciation and amortization	-3,119	-2,638	-3,631	-3,423	-3,491	-3,526	-3,597
Other operating expenses	-21,720	-24,911	-27,086	-29,016	-30,357	-30,951	-32,636
Operating Result	4,065	6,230	7,814	12,047	14,402	18,126	20,253
Interest income	459	682	607	707	794	799	855
Interest expense	-1,583	-1,632	-1,758	-2,014	-2,134	-2,244	-2,377
Income from investments in associates	0	0	282	0	0	0	0
Earnings before taxes	2,941	5,280	6,945	10,740	13,062	16,681	18,731
Taxes on income	-1,074	-1,140	-342	-1,140	-1,306	-3,336	-3,746
Consolidated net profit	1,867	4,140	6,603	9,600	11,756	13,345	14,985
Shares outstanding (thousand)	12,113	12,082	14,201	15,697	15,697	15,697	15,697
Earnings per share	0.15	0.34	0.46	0.61	0.75	0.85	0.95

Profit & Loss (Year on Year)

Revenues	4.6 %	11.2 %	9.7 %	7.0 %	6.0 %	5.0 %
Other Operating Income	-23.1 %	17.9 %	-14.4 %	-1.2 %	11.8 %	-6.7 %
Increase/decrease in inventory and WIP	-33.3 %	59.7 %	-123.0 %	-113.6 %	796.0 %	-90.3 %
Cost of material	-13.7 %	19.7 %	3.6 %	6.9 %	4.9 %	5.8 %
Gross income	8.4 %	9.6 %	10.3 %	6.8 %	6.4 %	4.6 %
Personnel expenses	4.7 %	8.4 %	7.9 %	6.0 %	5.0 %	3.1 %
Depreciation and amortization	-15.4 %	2.0 %	-5.7 %	2.0 %	1.0 %	2.0 %
Other operating expenses	14.7 %	8.7 %	7.1 %	4.6 %	2.0 %	5.4 %
Operating Result	62.2 %	30.7 %	54.2 %	19.5 %	25.9 %	11.7 %
Interest income	48.6 %	-25.5 %	16.4 %	12.3 %	0.7 %	6.9 %
Interest expense	3.1 %	1.3 %	14.5 %	6.0 %	5.2 %	5.9 %
Income from investments in associates	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings before taxes	94.4 %	32.6 %	54.6 %	21.6 %	27.7 %	12.3 %
Taxes on income	13.2 %	-38.6 %	233.3 %	14.6 %	155.4 %	12.3 %
Net income	142.2 %	52.2 %	45.4 %	22.5 %	13.5 %	12.3 %

Profit & Loss (% of Revenues)

Revenues	100%	100%	100%	100%	100%	100%
Other Operating Income	2.6%	1.9%	2.4%	1.9%	1.8%	1.7%
Increase/decrease in inventory and WIP	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of material	-20.8%	-17.2%	-19.4%	-18.3%	-18.3%	-18.1%
Gross income	81.7%	84.7%	83.1%	83.6%	83.5%	83.4%
Personnel expenses	-58.2%	-58.5%	-56.9%	-56.0%	-55.5%	-54.0%
Depreciation and amortization	-2.5%	-2.0%	-2.5%	-2.1%	-2.0%	-1.9%
Other operating expenses	-17.6%	-19.3%	-18.4%	-18.0%	-17.6%	-16.9%
Operating Result	3.3%	4.8%	5.3%	7.5%	8.3%	10.5%
Interest income	0.4%	0.5%	0.4%	0.4%	0.5%	0.4%
Interest expense	-1.3%	-1.3%	-1.2%	-1.2%	-1.2%	-1.2%
Income from investments in associates	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%
Earnings before taxes	2.4%	4.1%	4.7%	6.7%	7.6%	9.8%
Taxes on income	-0.9%	-0.9%	-0.2%	-0.7%	-0.8%	-2.0%
Net income	1.5%	3.2%	4.5%	6.0%	6.8%	7.8%

6 Balance Sheet

Balance Sheet - PSI AG							
Figures in k€	Fiscal year						
	2007	2008	2009	2010e	2011e	2012e	2013e
Assets							
<i>Non-current assets</i>							
<i>Property, plant and equipment</i>	7,745	8,002	9,344	9,851	11,344	12,138	12,866
<i>Intangible assets</i>	15,030	18,658	48,585	49,654	51,837	53,794	57,022
<i>Investments in associates</i>	0	0	359	359	359	359	359
<i>Other financial investments</i>	20	0	0	0	0	0	0
<i>deferred tax assets</i>	3,642	2,373	2,904	3,113	3,559	3,433	3,430
Sum non-current assets	26,437	29,033	61,192	62,977	67,099	69,724	73,677
<i>Current assets</i>							
<i>Inventories</i>	990	1,681	2,837	3,121	3,265	3,428	3,463
<i>Trade receivables, net</i>	22,255	23,253	33,751	33,751	36,070	37,268	39,131
<i>Receivables from long-term development contracts</i>	19,130	22,636	32,686	34,974	35,407	37,198	38,686
<i>Other assets</i>	2,790	2,365	3,504	2,786	2,885	3,242	3,214
<i>Cash and cash equivalents</i>	18,948	23,650	20,765	23,688	25,326	28,994	37,156
Sum current assets	64,113	73,585	93,543	98,320	102,953	110,130	121,650
Total assets	90,550	102,618	154,735	161,297	170,052	179,854	195,327
Equity and Liabilities							
<i>Shareholders' equity</i>							
<i>Subscribed capital</i>	31,009	30,464	40,185	40,185	40,185	40,185	40,185
<i>Capital reserves</i>	31,772	31,642	35,244	35,244	35,244	35,244	35,244
<i>Retained earnings</i>	0	0	0	0	0	0	0
<i>Reserve for Treasury stock</i>	0	-26	0	0	0	0	0
<i>Other reserves</i>	-582	275	-1,589	538	132	-417	-322
<i>Accumulated losses</i>	-32,772	-28,632	-7,551	2,049	13,804	27,149	42,134
Sum equity	29,427	33,723	66,289	78,016	89,365	102,161	117,241
<i>Non-current liabilities</i>							
<i>Non-current loans</i>	0	0	843	757	433	287	320
<i>Pension provisions</i>	27,391	26,653	30,096	30,397	30,093	29,190	30,066
<i>Deferred tax liabilities</i>	1,990	2,164	2,314	2,360	2,337	2,313	2,290
<i>Other non-current liabilities</i>	0	0	0	0	0	0	0
Sum non-current liabilities	29,381	28,817	33,253	33,514	32,863	31,791	32,676
<i>Current liabilities</i>							
<i>Trade payables</i>	9,386	9,558	14,610	13,802	13,940	13,382	13,650
<i>Other liabilities</i>	14,291	18,113	23,147	21,811	20,024	19,195	18,407
<i>Liabilities from long-term development contracts</i>	6,685	11,126	15,398	12,864	12,122	11,868	11,654
<i>Financial liabilities</i>	305	341	1,561	635	1,098	867	982
<i>Provisions</i>	1,075	940	477	655	640	590	717
Sum current liabilities	31,742	40,078	55,193	49,767	47,824	45,902	45,410
Total equity and liabilities	90,550	102,618	154,735	161,297	170,052	179,854	195,327

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7 Cash Flow Statement

Cash Flow Statement - PSI AG							
Figures in k€	Fiscal year						
	2007	2008	2009	2010e	2011e	2012e	2013e
1. Cash flow from operating activities							
<i>Consolidated net loss before tax</i>	2,941	5,280	6,945	10,740	13,062	16,681	18,731
<i>Amortization of intangible assets</i>	1,498	992	1,758	1,746	1,711	1,834	1,834
<i>Depreciation of property, plant and equipment</i>	1,458	1,617	1,873	1,677	1,781	1,693	1,762
<i>Losses from the disposal of assets</i>	22	33	28	28	30	28	29
<i>Interest income</i>	-459	-682	-437	-707	-794	-799	-855
<i>Interest expense</i>	1,583	1,632	1,758	2,014	2,134	2,244	2,377
<i>Foreign exchange gain/loss</i>	63	-148	1	63	50	-103	-10
<i>Other non-cash income/expenses</i>	-1,336	0	-166	0	0	0	0
Gross cash flow	5,770	8,724	11,760	15,561	17,973	21,578	23,868
<i>Change in working capital</i>							
<i>Change in inventories</i>	747	712	2,260	-284	-144	-163	-34
<i>Change in trade receivables</i>	-5,587	-4,225	-10,198	-2,288	-2,752	-2,989	-3,351
<i>Change in other assets</i>	-1,203	1,136	-824	718	-99	-357	28
<i>Change in provisions</i>	-990	-1,286	-1,503	347	-328	-926	853
<i>Change in trade payables</i>	1,058	-12	2,291	-3,342	-604	-811	53
<i>Change in other liabilities</i>	3,478	5,705	1,269	-1,336	-1,787	-829	-788
<i>Interest paid</i>	-96	-90	-161	-96	-100	-132	-119
<i>Income taxes paid</i>	-137	-771	-493	-1,140	-1,306	-3,336	-3,746
Cash flow from operating activities	3,040	9,893	4,401	8,140	10,853	12,034	16,763
2. Cash flow from investment activities							
<i>Additions to intangible assets</i>	-176	-338	-477	-428	-475	-474	-498
<i>Additions to property, plant and equipment</i>	-1,415	-1,792	-2,394	-2,931	-2,849	-3,092	-3,178
<i>Additions to financial assets</i>	-20	0	-77	-100	-110	-142	-153
<i>Disposals of separation from intangible assets</i>	0	0	0	0	0	0	0
<i>Disposals of property, plant and equipment</i>	28	0	0	0	0	0	0
<i>Disposals of financial assets</i>	1,632	20	0	79	104	112	146
<i>Additions to investments in subsidiaries, minus cash acquired</i>	0	-3,098	-13,350	0	0	0	0
<i>Interest received</i>	457	682	429	523	545	499	522
Cash flow from investment activities	506	-4,526	-15,869	-2,857	-2,785	-3,097	-3,162
3. Cash flow from financing activities							
<i>Change in subscribed capital</i>	0	0	3,046	0	0	0	0
<i>Outflows for share buybacks</i>	0	-701	-1	-1,100	0	0	0
<i>Changes in capital reserves</i>	0	0	6,001	0	0	0	0
<i>Inflows from current financial liabilities incurred</i>	62	36	-463	-926	463	-232	116
<i>Dividends paid out</i>	0	0	0	-2,982	-5,878	-6,672	-7,492
Cash flow from financing activities	62	-665	8,583	-5,008	-5,415	-6,904	-7,377
4. Cash and cash equivalents at end of period							
<i>Changes in cash and cash equivalents</i>	3,608	4,702	-2,885	275	2,653	2,033	6,225
<i>Cash and cash equivalents at beginning of period</i>	15,340	18,948	23,650	20,765	21,040	23,693	25,726
Cash and cash equivalents at end of period	18,948	23,650	20,765	21,040	23,693	25,726	31,951

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8 Valuation

9 DCF-Model

In order to determine the fair value, we established a three-stage discounted cash flow model. All data are based on the consolidated financial statements of PSI AG.

Through discounting the operative free cash flows to the valuation date we accommodated the during the period valuation date. As the valuation date we chose May 1, 2010. As far as non operating assets are concerned, their value was derived separately and added to the present value of the payouts.

Tying in with this, the phase of terminal value follows, for which we calculated with a growth rate of 2% p.a.

/ Discounted Cash Flow-Model (Basis 5/2010)

(m EUR)	<i>Phase 1</i>					
	2010e	2011e	2012e	2013e	2014e	2015e
Revenues	161.2	172.5	182.8	192.0	201.6	211.7
Rate of change	10%	7%	6%	5%	5%	5%
EBIT	12.0	14.4	18.1	20.3	20.9	21.5
Rate of change	16%	20%	26%	12%	3%	3%
Margin	7.5%	8.3%	9.9%	10.5%	10.3%	10.2%
Interest and Shareholding Income	1.3	1.3	1.4	1.5	1.2	1.3
EBT	13.4	15.7	19.6	21.8	22.1	22.8
Operational tax expenses	-1.1	-1.3	-3.3	-3.7	-4.4	-4.6
Effective Tax Rate (ex. Interest Income)	8.5%	8.3%	17.0%	17.2%	20.0%	20.0%
Depreciation and Amortization	3.4	3.5	3.5	3.6	3.8	4.0
Depreciation Ratio (%Revenues)	2.1%	2.0%	1.9%	1.9%	1.9%	1.9%
Changes in long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0
Proportion of Revenues	-	-	-	-	-	-
Cash Flow -Business needs (change WC)	-6.3	-5.8	-6.2	-3.4	-9.5	-9.5
Working-Capital-Ratio (%Revenues)	-3.9%	-3.4%	-3.4%	-17%	-4.7%	-4.5%
Investments into fixed assets	-3.5	-3.4	-3.7	-3.8	-3.6	-4.0
Investments ratio (%Revenues)	-2.1%	-2.0%	-2.0%	-2.0%	-1.8%	-1.9%
Other	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash-Flow	5.9	8.7	9.8	14.4	8.4	8.7

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10 WACC

The discount rate was calculated by deriving the weighted 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	2.0%
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	1.06

Equity Cost **9.1%**

Debt Cost

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

Debt Cost (after tax) **4.9%**

Equity Value	193
Market Value of net debt	88
Gearing (Market Values)	45.7%

WACC **7.78%**

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

11 Fair Value – Sensitivities

Our derived fair value per share amounts to EUR 13.42. This implies an upside potential of 9 % to the current share price (EUR 12.32). 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				
β = 1.06		7.28%	7.53%	7.78%	8.03%	8.28%
Growth	1.0%	13.62	13.01	12.45	11.92	11.44
	1.5%	14.18	13.51	12.90	12.33	11.80
	2.0%	14.86	14.11	13.42	12.80	12.22
	2.5%	15.67	14.82	14.05	13.35	12.71
	3.0%	16.67	15.69	14.81	14.02	13.30

Sensitivity analysis		Market capitalization				
EUR m		Discount rate				
β = 1.06		7.28%	7.53%	7.78%	8.03%	8.28%
Growth	1.0%	213.76	204.20	195.36	187.16	179.53
	1.5%	222.64	212.11	202.42	193.48	185.22
	2.0%	233.20	221.44	210.70	200.86	191.80
	2.5%	245.98	232.63	220.56	209.57	199.53
	3.0%	261.73	246.29	232.47	220.01	208.72

12 Contact

PSI AG

Dircksenstraße 42-44
D-10178 Berlin

Tel.: + 49 (0) 30 / 28 01 – 27 27

Fax: + 49 (0) 30 / 28 01 – 10 00

Head of IR: Herr Karsten Pierschke

Mail: ir@psi.de

DR. KALLIWODA RESEARCH GmbH		Unterlindau 22 60323 Frankfurt Tel.: 069-97 20 58 53 www.kalliwoda.com
Primary Research Fair Value Analysis International Roadshows		
Head: Dr. Norbert Kalliwoda E-Mail: nk@kalliwoda.com	CEFA-Analyst; University of Frankfurt/Main; PhD in Economics; Dipl.-Kfm.	<u>Sectors:</u> IT, Software, Electricals & Electronics, Mechanical Engineering, Logistics, Laser, Technology, Raw Materials
Michael John E-Mail: mj@kalliwoda.com	Dipl.-Ing. (Aachen)	<u>Sectors:</u> Chemicals, chemical engineering, basic metals, renewable energies, laser/physics
Dr. Thomas Krassmann E-Mail: tk@kalliwoda.com	Dipl.-Geologist, M.Sc.; University of Göttingen & Rhodes University, South Africa;	<u>Sectors:</u> Raw Materials, Mining, Precious Metals, Gem stones.
Wolfgang Neuner E-Mail: wn@kalliwoda.com	MBA (Uni. Iowa (US)) and Dipl.-Kfm. (Major Finance and Monetary Economics 2009).	<u>Sectors:</u> Banks, Financial Services, Real Estates - REITS.
Dr. Christoph Piechaczek E-Mail: cp@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Witten-Herdecke.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
Kolja Schick – Freiherr von Flotow E-Mail: ks@kalliwoda.com	Dipl.-Kaufmann, (University of Frankfurt/Main).	<u>Sectors:</u> Consumers, Automotives, Automotive Suppliers, Mechanical Engineering
Dr. Erik Schneider E-Mail: es@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Hamburg.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
David Schreindorfer E-Mail: ds@kalliwoda.com	MBA, Economic Investment Management; Univ. Frankfurt/ Univ. Iowa (US).	<u>Sectors:</u> IT/Logistics; Quantitative Modelling
Hellmut Schaarschmidt; E-Mail: hs@kalliwoda.com	Dipl.-Geophysicists; University of Frankfurt/Main.	<u>Sectors:</u> Oil, Regenerative Energies, Specialities Chemicals, Utilities
Nele Rave E-Mail: nr@kalliwoda.com	Lawyer; Native Speaker, German School London,	<u>Translations English</u>

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