Research Report (Anno)

Implementation of ABM Restructuring
-
Restructuring of Group financing is imminent
-
Participation of investors sought for the subsidiary

Target Price: Suspended

Rating: Under review

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page 15

Date of Completion: 05/07/2016 Date of first Publication: 05/07/2016

GBC AG Investment Research

Greiffenberger AG*5a,11

Rating:
Under review
Target price:
Suspended

Current Price: 0.939
05/07/2016 / ETR

Currency: EUR

Key Information:

ISIN: DE0005897300
WKN: 589730
Ticker symbol: GRF

Number of shares³: 5.323
Marketcap³: 5.00
Enterprise Value³: 77.10
³in mEUR

Freefloat: 42.02 %

Transparency level:
General Standard

Market segment:
Regulated market

Accounting standard:
IFRS

Financial year-end: 31/12

Designated Sponsor:
EQUINET BANK AG

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* catalogue of potential conflicts of interests on page 16

Company Profile

Sector: Industry

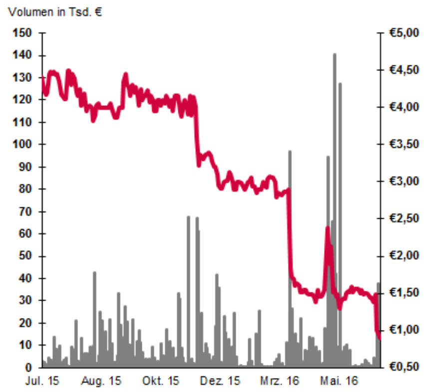
Specialty: Drive technology, metal band saw blades & precision strip steel, sewer renovation

Employees: 1,107

Founded: 1986

Registered Office: Marktredwitz

Executive Board: Marco Freiherr von Maltzan



Greiffenberger AG, with its registered office in Marktredwitz and its management in Augsburg, is a family-run holding company with shareholdings in various industries divided into three business areas. The Drive Technology business is represented by the largest subsidiary **ABM Greifenberger Antriebstechnik GmbH**, based in Marktredwitz. In addition, ABM has foreign subsidiaries in China, France, Austria, Poland, Turkey, and the USA. The Metal Band Saw Blades & Precision Strip Steel business unit comprises **J. N. Eberle & Cie. GmbH**, based in Augsburg. Eberle also has subisidaries in France, Italy and the USA. **BKP Berolina Polyester GmbH & Co. KG**, based in Velten, operates in the fields of sewer renovation technology and pipe lagging. Greiffenberger AG has been listed since 1986.

P&L in EUR m	31/12/2012	31/12/2013	31/12/2014	31/12/2015*
Sales	157.96	155.24	152.23	151.74
EBITDA	15.39	12.59	9.41	6.79
EBIT	8.80	6.03	2.41	-15.09
Net profit	2.55	1.30	-0.44	-25.73
* no audit opinion for annual financial statement 2015				
Per Share Figures in EUR				
Earnings per share	0.53	0.27	-0.09	-4.83
Dividend per share	0.00	0.00	0.00	0.00

Key Figures				
EV/Sales	0.45	0.44	0.49	0.51
EV/EBITDA	4.57	5.40	7.91	11.36
EV/EBIT	7.99	11.28	30.83	neg.
P/E	1.78	3.51	neg.	neg.
P/B				0.71

Financial Calendar
Annual Shareholder Meeting: until end of August 2016
Half-year report 2016: end August 2016

**last research published by GBC:
Date: publication/price target in €/Rating
30/11/2015: RS / 5.00 / BUY
16/10/2015: RS / 6.80 / BUY
26/08/2015: RS / 6.80 / BUY
29/04/2015: RS / 7.10 / BUY
** the research reports can be found on our web-side www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

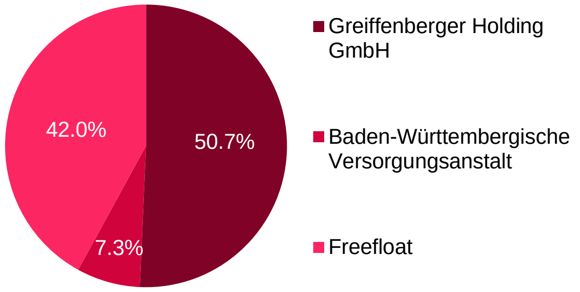
TABLE OF CONTENTS

Company Overview

Shareholder structure

Shareholder in %	
Greiffenberger Holding GmbH	50.70 %
Baden-Württembergische Versorgungsanstalt	7.28 %
Freefloat	42.02 %

Source: Greiffenberger AG, GBC AG



Company structure

Greiffenberger AG
Holding

100 % – **ABM Greiffenberger Antriebstechnik GmbH** – *Drive Technology*

- ABM Plauen GmbH
- ABM Greiffenberger Polska sp. z o.o. (Poland)
- ABM Antriebstechnik Ges.m.b.H (Austria)
- ABM Systémes d'Entrainement S.a.r.l (France)
- ABM Drives Inc. (USA)
- ABM Drives (Suzhou) Co., Ltd. (China)
- ABM Greiffenberger Har. Sist. Tic. Ltd. Şti. (Turkey)

100 % – **J. N. Eberle & Cie. GmbH** – *Metal Band Saw Blades & Precision Strip Steel*

- Eberle Italia S.r.l. (Italy) (98,95 %)
- Eberle France S.a.r.l. (France)
- Eberle America Inc. (USA)

75 % – **BKP Berolina Polyester GmbH & Co. KG** – *Pipeline Renovation Technology*

- Berotech A/S (Denmark) (50 %)

Important target markets

Drive Technology

Drive solutions for branches like:

- Hoisting technology
- Material handling equipment
- Intra- and warehousing logistics
- Renewable energies
- Medical technology
- E-mobility
- Textile machines

Metal Band Saw Blades & Precision Strip Steel

- Metal band saw blades for the metal processing industry.

Precision strip steel products for a variety of sectors like:

- Automotive industry

(e.g. shock absorbers and compressors)

- Paper and printing industry

(e.g. doctor blades and scrapers)

- Textile machine industry

(e.g. weaving reeds)

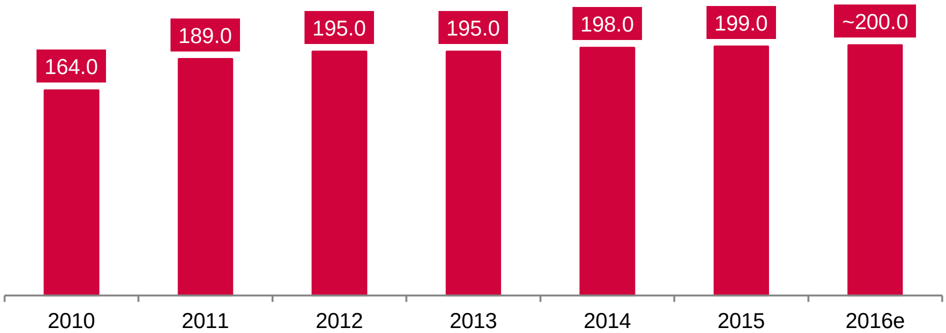
Pipeline Renovation Technology

- Companies specialised on trenchless pipeline renovation
- Builders of large pipelines

MARKTET AND MARKET ENVIRONMENT

Though the German industrial machinery market remained stable in 2015, it was also without any significant impetus. The production value grew nominally by just 0.5% to €199 billion. Even in 2016, the VDMA industry association appears cautious and assumes that the production value may continue to climb just slightly above the €200 billion mark. One of the reasons for this caution is the comparatively low incoming orders in January 2016. Thus, an incoming order level 12% lower than the previous year was recorded in the first month of the year. This meant the gains of Q4 2015 were levelled again. However, the situation has brightened up a little over 2016 and a 10% increase in orders was therefore recorded between February and April 2016. Nevertheless, they were characterised by some individual high volume orders and the VDMA does not therefore derive any clear growth trends from this as a whole.

Producion value of German engineering industry (in billion €)

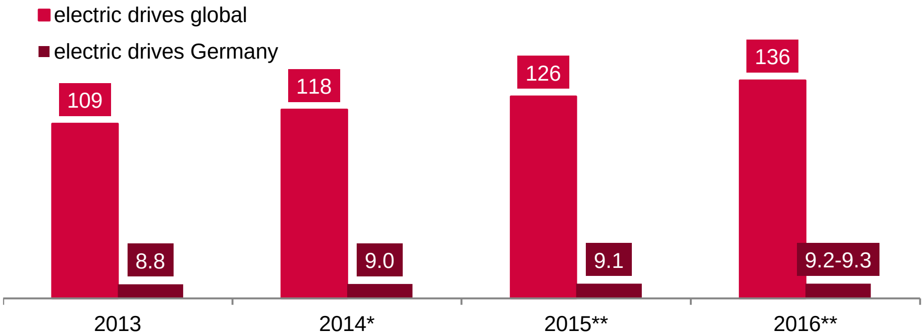


Source: Statistisches Bundesamt, VDMA, GBC AG

Particularly significant was the decline in the drive technology sub-segment, where even the largest Greiffenberger AG subsidiary, ABM Greiffenberger Antriebstechnik GmbH, is active. The decline between November 2015 and January 2016 was more than 20% and was thus one of the weakest areas in industrial machinery.

Nevertheless, it is assumed that the drive technology sector will also record slight growth in 2016. Since only low growth rates have been recorded in previous years, we expect to achieve growth of 1-2% in Germany in 2016 as well. The electrical industry association ZVEI expects somewhat more dynamic movement internationally for electric drives. Here it is expected that the market will increase by 8% to €136 billion overall.

Market for electric drives (in billion €)



*Source: ZVEI, July 2015; GBC; *estimate, **estimate at constant exchange rates*

BUSINESS DEVELOPMENT & ESTIMATES

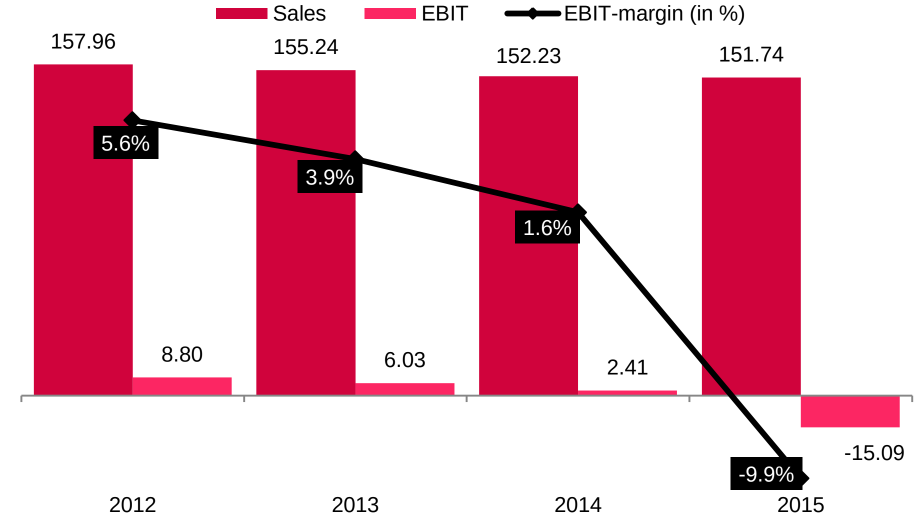
Key financial figures

P&L in m EUR	FY 2012		FY 2013		FY 2014		FY 2015	
Sales	**157.96**	**100.0%**	**155.24**	**100.0%**	**152.23**	**100.0%**	**151.74**	**100.0%**
Other operating income	3.38	2.1%	2.82	1.8%	3.54	2.3%	2.99	2.0%
Changes in inventory	0.65	0.4%	1.41	0.9%	2.78	1.8%	-1.22	-0.8%
Own work capitalised	0.65	0.4%	1.04	0.7%	1.24	0.8%	1.08	0.7%
Total output	**162.64**	**103.0%**	**160.51**	**103.4%**	**159.78**	**105.0%**	**154.59**	**101.9%**
Cost of materials	-76.55	-48.5%	-74.39	-47.9%	-72.91	-47.9%	-71.93	-47.4%
Personnel costs	-49.44	-31.3%	-52.84	-34.0%	-55.75	-36.6%	-53.66	-35.4%
Other operating expenses	-21.26	-13.5%	-20.70	-13.3%	-21.71	-14.3%	-22.21	-14.6%
EBITDA	**15.39**	**9.7%**	**12.59**	**8.1%**	**9.41**	**6.2%**	**6.79**	**4.5%**
Depreciation & Amortisation	-6.59	-4.2%	-6.56	-4.2%	-6.99	-4.6%	-21.88	-14.4%
EBIT	**8.80**	**5.6%**	**6.03**	**3.9%**	**2.41**	**1.6%**	**-15.09**	**-9.9%**
Interest income	0.31	0.2%	0.36	0.2%	0.25	0.2%	0.25	0.2%
Interest expenses	-5.60	-3.5%	-4.01	-2.6%	-4.18	-2.7%	-3.80	-2.5%
EBT	**3.51**	**2.2%**	**2.38**	**1.5%**	**-1.52**	**-1.0%**	**-18.64**	**-12.3%**
Income taxes	-0.95	-0.6%	-1.08	-0.7%	1.08	0.7%	-7.09	-4.7%
Other taxes	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Net profit/loss	**2.55**	**1.6%**	**1.30**	**0.8%**	**-0.44**	**-0.3%**	**-25.73**	**-17.0%**

EBITDA	15.39	12.59	9.41	6.79
in % of sales	*9.7 %*	*8.1 %*	*6.2 %*	*4.5 %*
EBIT	8.80	6.03	2.41	-15.09
in % of sales	*5.6 %*	*3.9 %*	*1.6 %*	*neg.*
Earnings per share in €	0.53	0.27	-0.09	-4.83
Dividend per share in €	0.00	0.00	0.00	0.00
Ø Number of shares in million	4.84	4.84	5.16	5.32

Source: GBC AG

Development of Sales, EBIT (in million €) and EBIT-margin (in %)



Source. GBC AG

Business Development FY2015

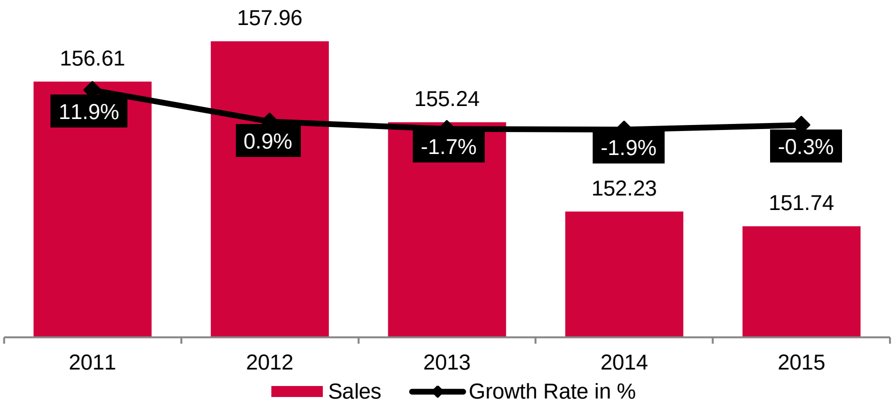
P&L (in m EUR)	FY 2014	Δ to FY 2014	FY 2015
Sales	152.23	-0.3 %	151.74
Gross Profit (margin)	86.87 (57.1%)	-4.8 %	82.66 (54.5%)
EBITDA (margin)	9.41 (6.2%)	-27.9 %	6.79 (4.5%)
EBIT (margin)	2.41 (1.6%)	-	-15.09 (-9.9%)
Net profit	-0.44	-	-25.73
EPS in €	-0.09	-	-4.83

Source: Greiffenberger AG, GBC AG

Development of Sales

Greiffenberger AG's sales performance was characterised by heterogeneous growth between the quarters of the 2015 financial year. While the year started as expected with a weak quarter in which sales fell by 8.2% compared with the previous quarter due to a low order situation at the end of 2014, this was followed by a 4.8% improvement in sales in Q2 2015. As a result, the sales level of €74.4 million for the first half of the year was just 1.6% below the corresponding level of €75.7 million for the previous year. The positive growth of Q2 also continued in the second half of 2015 and therefore sales improved by 2.2% in Q3 2015, although not as strongly as expected. The slowing sales growth ultimately continued into Q4 2015 with a slight drop in sales of 0.2%.

Development of Sales (in million €)



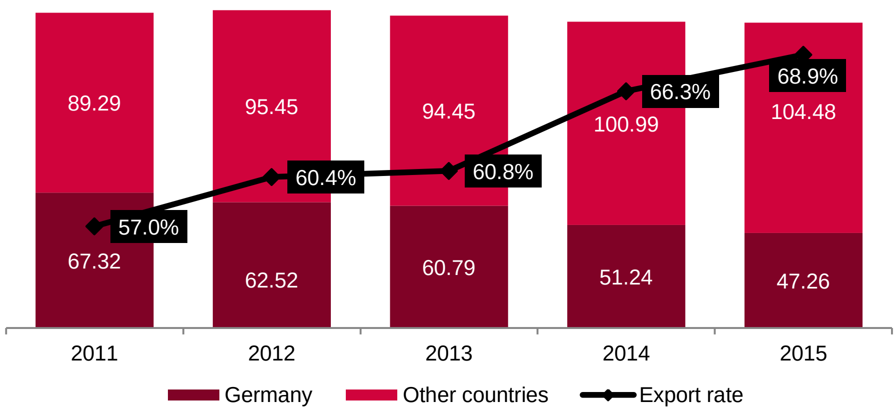
Source: Greiffenberger AG, GBC AG

The reasons for this trend are a deteriorating economic environment in the plant and machine engineering industry, on the one hand, due to a considerable drop in investment in the oil and gas industry, and trends in individual regions which have had a negative impact on the entire group's sales growth. In the final quarter, the postponement of orders arising from framework agreements also had a negative effect on sales beyond the end of the year.

Overall, the company thus ended the year with a slight drop in sales of 0.3% to €151.74 million and with this result was slightly above the sales forecast reduced in November 2015 from its original €153 million to around €150 million.

With regard to the regional sales growth, the previous year was characterised particularly by a domestic drop by 7.8% to €47.3 million, which could not be fully offset despite an increase in foreign sales by 3.5% to €104.5 million. While individual countries such as France, Italy, the Czech Republic and the Benelux countries experienced positive growth like China and India, expectations on the US market could not be fully met. As a result, exports continued to increase as in previous years to 68.9%.

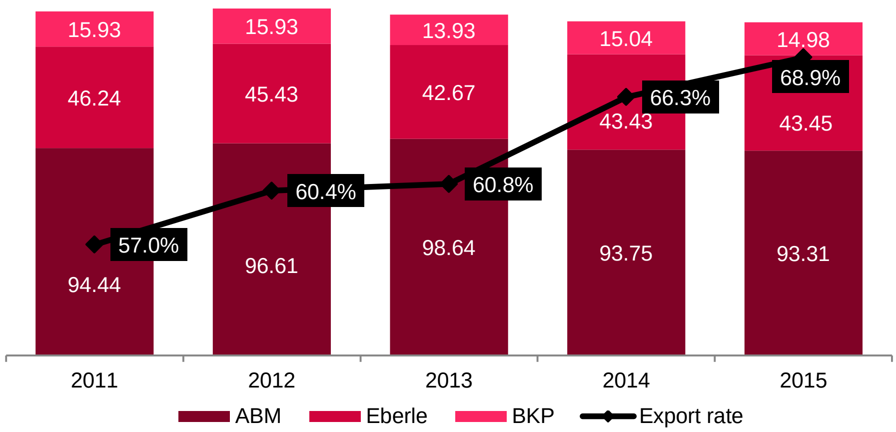
Development of sales by region (in million €) und export rate (in %)



Source: Greiffenberger AG, GBC AG

Based on the segments, growth in the previous year was fairly homogeneous, therefore there were no notable changes compared with the previous year in terms of sales distribution. Thus the drive technology segment (ABM) is still the largest share in sales with 61.5%. The other two areas of metal band saw blades & precision strip steel (Eberle) and pipe renovation technology (BKP) each had 28.6% and 9.9% of total sales respectively. While sales remained at the previous year's level for Eberle, growth for ABM and BKP was slightly negative at 0.5% and 0.4% respectively.

Development of sales by segment (in million €) and export rate (in %)

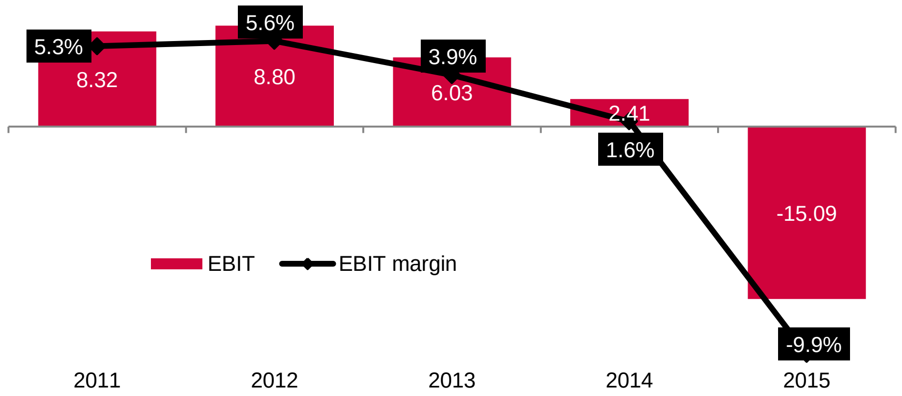


Source: Greiffenberger AG, GBC AG

Development of Earnings

In terms of earnings, the previous financial year 2015 was not as positive as had been hoped at the start of the year. After increases were expected at the start of the year for both the EBITDA and for the EBIT and the expectations for the year were put in concrete terms at €10.0 - €11.5 million for EBITDA (2014: €9.4 million) and €3.0 - €4.5 million for EBIT (2014: € 2.4 million), the plans had to be revised downwards due to the below-budget sales in November 2015. From then on, the aim was to achieve a positive EBIT over the course of the year.

Development of EBIT (in million €)



Source: Greiffenberger AG, GBC AG

During the preparation of the annual financial statements, however, there was a considerable need in the drive technology segment for amortisations on assets of the subsidiary ABM, which resulted in a significantly negative operating result (EBIT). The adjustments became necessary due to the declining sales and earnings growth at ABM over the past two years, resulting in an adjustment to the carrying amount of ABM in the Group's balance sheet. As a result, amortisation and depreciation on property, plant and equipment and intangible assets of around €14.5 million was to be recorded in the Group balance sheet, which had a one-off negative effect on the result. Due to this effect, the 2015 EBIT fell sharply to -€15.1 million, corresponding to a drop of €17.5 million compared with 2014. After adjustment for this special effect, the 2015 EBIT was at -€0.54 million and was therefore only slightly below the new guidance given in November. The adjusted EBIT margin in 2015 was -0.4% compared with 1.6% in the previous year.

Development of EBIT 2015 (in million €)

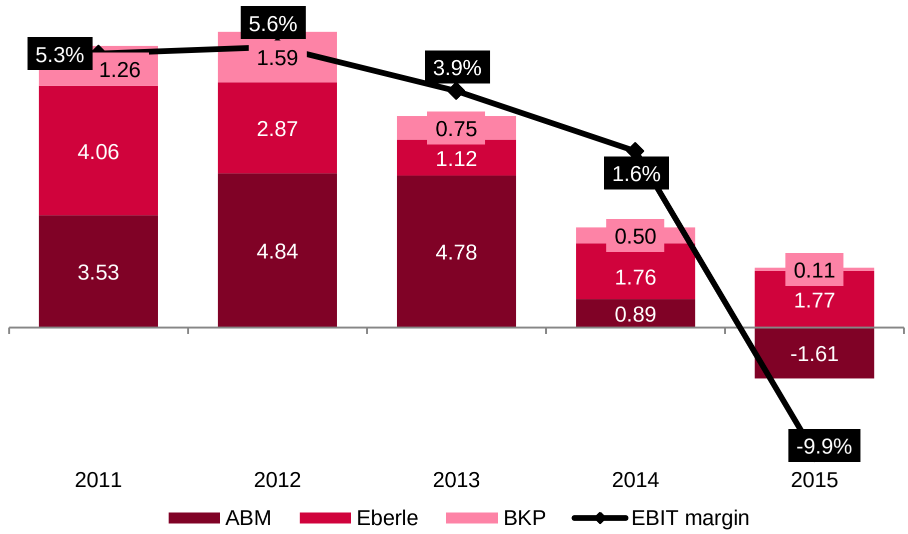
Source: Greiffenberger AG, GBC AG

At the segment level, growth in EBIT was characterised in particular by an unsatisfactory results situation in the largest segment of drive technology in the subsidiary ABM. Since the result in the previous year was already falling significantly due to weaker sales compared with 2013, in 2015 the Group also had to record another fall in results and therefore the EBIT of €0.89 million in 2014 fell to -€1.61 million and was thus substantially responsible for the decline at Group level.

On the other hand, the second largest segment of Eberle was able to maintain the previous year's improved earnings level and contribute to the operating result with just under €1.8 million, thereby achieving an EBIT margin of 4.1%, after 4.0% in 2014. The subsidiary BKP, however, was not quite able to follow up on the previous year's level due to one-off improvement work as part of a client order, but it still managed to achieve an operating profit of €0.11 million.

In this context, it is important to note that the earnings performance is the actual operating performance and the adjustments mentioned were recorded below the holding costs which thus rose in the 2015 financial year from -€0.73 million to -€15.36 million.

Development of EBIT by segment (in million €) and EBIT margin (in %), without holding costs



Source: Greiffenberger AG, GBC AG

The significant decline in the annual net profit from -€0.44 million in 2014 to -€25.73 million last year was also caused by write-downs on deferred taxes of €6.75 million, therefore the income tax expenditure rose to €7.1 million, while last year tax income of €1.1 million was accounted for. However, the write-down on deferred taxes is an effect that does not affect cash and existing losses carried forward also remain unaffected by it and may be used unchanged in the event that a profit is achieved in the future. On the other hand, interest costs declined slightly from €4.18 million to €3.80 million.

However, it should be stated that the Executive Board of Greiffenberger AG considers there to be considerable potential for improving earnings in the subsidiary ABM despite the decreasing earnings of recent years. This is discussed in greater detail in the forecast section.

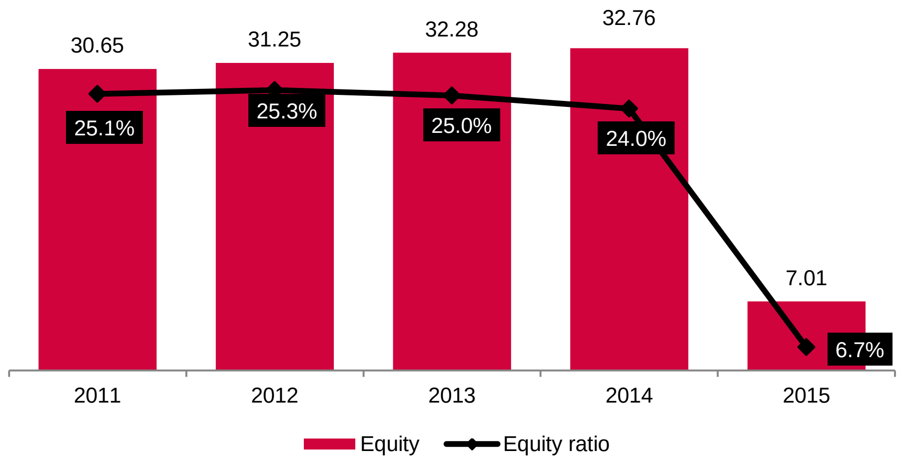
Balance Sheet and Financial Situation

In EUR m	FY 2013	FY 2014	FY 2015
Equity	32.28	32.76	7.01
Equity-ratio (in %)	*24.9 %*	*24.0 %*	*6.7 %*
Interest bearing debt*	69.48	76.91	74.05
Liquid assets	6.64	8.01	2.55
Net debt	62.84	68.90	71.49
Working Capital	31.52	34.87	36.95

*Source: Greiffenberger AG, GBC AG; *including pension provisions and finance lease*

The Greiffenberger Group's financial situation and balance-sheet situation reflects the negative effect on earnings from the adjustments to the operating assets at the subsidiary ABM and on the deferred taxes. This has caused significant effects especially for equity on the balance sheet and fixed assets. While the company's equity has ranged between €30.0 million and €33.0 million in recent years, it fell significantly by €25.8 million to €7.0 million due to the aforementioned effects, thereby reducing the equity ratio from 24.0% to 6.7%. The operating assets fell by €18.7 million from €62.8 million to €44.1 million and include the operating amortisation and depreciation of €7.3 million as well as the adjustment, which were almost twice as high as the investment volume, which in 2015 was €4.3 million and thus considerably lower than the 2014 level (€8.6 million).

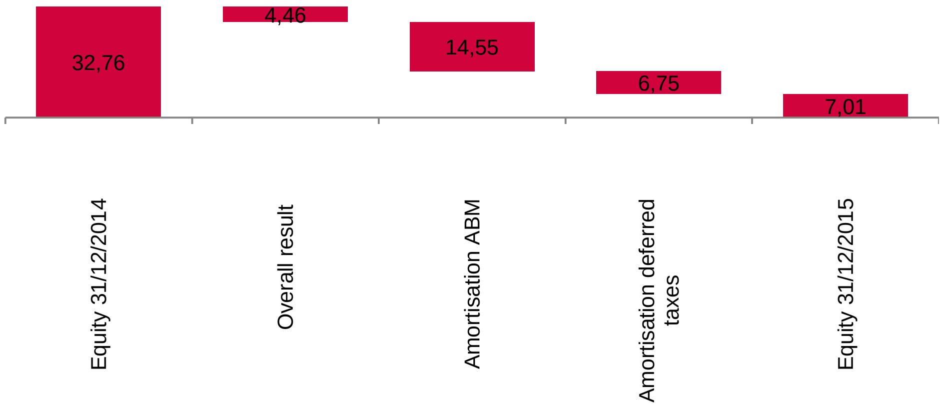
Development of equity (in million €) and equity ratio (in %)



Source: Greiffenberger AG, GBC AG

The change in equity in 2016, shown in the figure below, highlights the different effects that led to the substantial reduction. At €14.6 million, the largest negative factor results from the aforementioned amortisation on assets at the subsidiary ABM, while the amortisation on deferred taxes of €6.8 million and negative overall result from operations of €4.5 million also reduced equity. Most of the drop in the balance sheet total by €31.6 million to €104.8 million is therefore due to the reduction in equity of €25.8 million. The remaining amount of €5.8 million is primarily due to changes in financial liabilities, current assets and associated liquid assets.

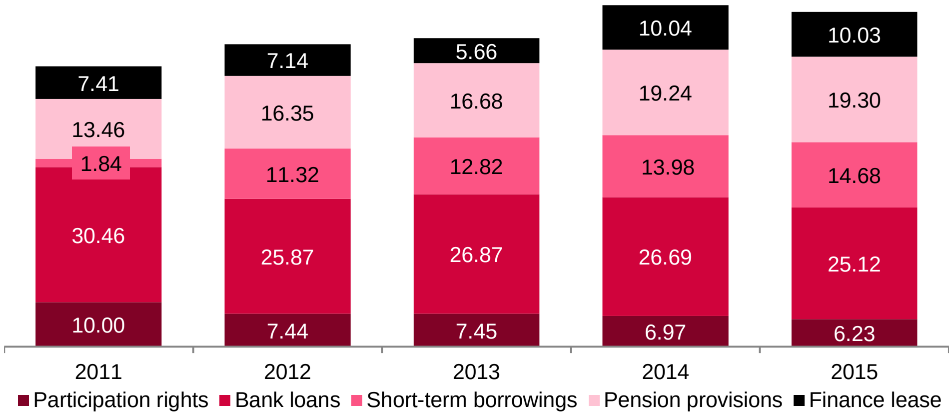
Development of equity in 2015 (in million €)



Source: Greiffenberger AG, GBC AG

As already outlined in the previous section, financial liabilities were reduced in the previous year. Overall, interest-bearing liabilities, consisting of short-term and long-term bank loans, finance leasing liabilities, pensions provisions, overdraft facilities and participation rights liabilities, were reduced from €75.4 million to €74.2 million. In absolute terms, however, financial liabilities are still high. Balanced against liquid assets of €2.6 million, this thus gives a net debt of €71.5 million, compared with €68.9 million for the previous year. Following the negative earnings performance and the deterioration of individual balance sheet figures, particularly the equity ratio, Greiffenberger AG has decided to revise its current funding. More information on this is given in the forecast section. Consequently, the majority of the existing long-term loans were restructured into short-term loans, and they therefore increased from €15.6 million to €35.1 million by 31/12/2015, while long-term loans fell by €20.5 million to €4.6 million.

Structure of interest bearing debt (in million €)



Source: Greiffenberger AG, GBC AG

SWOT-Analysis

Strengths	Weaknesses
• Low dependence on regional sales markets as a result of wide diversification of sales countries • Strong market positions in high-margin niche markets with capital-intensive and technological entry barriers • High degree of technology as a result of past investments • Focus on improving the quality of products, e.g. with the new ABM plant in Lublin, secures the market position and competitive advantage • A broadly diversified and long-standing customer base	• Relatively high net indebtedness • High investment activity in recent years has not yet resulted in a significant increase in sales • Increased working capital at the same time as a decline in sales in 2014 and 2015 • Low equity ratio of 6.7% • No audit opinion for annual financial statement 2015
Opportunities	**Threats**
• If the domestic demand increases, Greiffenberger AG is likely to benefit disproportionately as a result of its technological expertise and will be able to meet the resulting orders fully as a result of the existing capacities • After completing the investment programme in the new plant in Lublin, Poland, as well as in new production equipment in 2014, higher earnings and profit margins can be expected in the future as a result of the enhanced value creation and the resulting economies of scale • Mostly in the drive technology division, the development of new industries and customers, such as in-warehousing logistics, offers additional sales potential in the future • Facing the future issues of environmental technology and energy efficiency, e.g. in e-mobility and renewable energies, offers opportunities for future growth	• A sudden downturn in the global economy would result in a marked reduction in sales as a result of Greiffenberger AG's international focus • Future tariff increases and increases in prices for key raw materials would also reduce earnings and impede margin improvement • Legislative changes in the field of renewable energies and environmental technology could result in lower sales

Forecasts and current valuation

Background to current restructuring programme

In the light of business development that is lower than expectations for the second half of 2015 - particularly in ABM - and the associated forecasting adjustments in November 2015, Greiffenberger AG had informed its financial partners that the agreed key financial figures from the syndicated loan agreement of 31/12/2015 could not in all likelihood be retained.

As a result, a plan was developed with the financial partners to ensure the continuation of business activities which would lead to a better earnings position in particular, as well as an improved liquidity position. Under this plan, the participating parties agreed to postpone the repayment instalment due on 31/03/2016 for the syndicated loan and the partial repayment of the participation right to 31/10/2016. Furthermore, the interest payments due on the syndicated loan over this period and the compensation payment for the participation right will be suspended.

The plan to secure liquidity and continue the company developed under this plan resulted in the necessary restructuring measures requiring additional funds of €10 million, which are not available under Greiffenberger AG's current financial framework. According to the company's plans, strengthening the financial structure of individual subsidiaries is sought after through the involvement of investors. Consequently, Greiffenberger AG would lose its majority in the company concerned.

In the light of the ongoing restructuring and the associated lack of predictability regarding the continuation of the company's business activity, the commissioned audit company did not yet issue an audit certificate for the 2015 financial statements. On 08/07/2016 the company will be informed about the final outcome of the audit, however, management expects the issuance of a disclaimer of opinion. Instead, the auditors require additional documentation on funding to assess the likelihood of success for the restructuring plan. More detailed information on this has not been published to date, because negotiations with investors are still in process.

Sales and earnings estimates for Greiffenberger AG

To make ABM's activity sustainably profitable again, a comprehensive restructuring project was launched in early May 2016. This not only foresees an adjustment to cost structures, but also the restructuring of processes and the strengthening of the company's core competences.

As part of the restructuring measures, around 120 posts are to be removed at the Marktredwitz site, which makes up around 20% of all jobs at ABM. At the same time, the vertical range of production at the German site is to be reduced, together with an increase in the purchase of components to increase the processing speed. On the other hand, the share of production is to be increased at the Lublin site. A competitive cost structure will be re-established with these measures and adequate margins should be achieved. Finally, they are looking to focus on the company's core skills in the areas of mobile drive technology (e.g. forklift trucks) and industrial applications (e.g. lifting and conveying technology) without at the same time neglecting investment in new future-oriented developments. In particular, the areas of intra-logistics and warehouse logistics, medical technology or e-mobility are to be addressed.

On the whole, moderate growth in turnover is being pursued at ABM in 2016. A significantly improved EBIT is expected, though it is not expected to achieve the 2014 level (€0.89 million).

It is unclear whether the costs for restructuring have already been included in this earnings forecast for 2016. However, we assume that there will be negative effects in this respect, e.g. due to staff changes. Costs in terms of organisational changes and moving business activities from Marktredwitz to Lublin should also be taken into account. In this respect, we assume that the ABM result will be further impacted negatively.

In terms of the Group turnover, Greiffenberger AG's Executive Board assumes that this will again increase moderately in the 2016 financial year compared with 2015. As already outlined, growth will primarily be driven by the ABM subgroup, the largest subsidiary.

In terms of the Group's result, Greiffenberger AG's Executive Board expects to achieve a much better result compared with the 2015 financial year, with a positive EBIT. However, according to company forecasts it is conceivable that the 2014 earnings level of €2.41 million will not be reached yet again.

Valuation of GBC AG

At the time the study was established, no new findings in terms of the future funding of Greiffenberger AG were available. Even with regard to investor participations in subsidiaries, no new information has been published. In this respect, it is currently not known in which subsidiary investors should potentially invest or whether alternative funding options are being considered.

This is very important for the Greiffenberger group's future sales and earnings performance, however, because a potential majority sale of one of the subsidiaries would lead in certain circumstances to a considerable reduction in turnover due to the final consolidation. The income contribution would accordingly be recorded in all probability in future in the profit and loss account as income from investments accounted for using the equity method and would also result in considerable balance sheet changes during final consolidation.

Due to the currently unclear situation regarding the refinancing of group liabilities and the current open-ended restructuring of the subsidiary ABM, we are at present unable to make a reliable valuation of Greiffenberger AG. Instead, a successful refinancing of the debt side will initially open up the possibility of a sustainable restructuring of the company.

For this reason, we cannot at present determine a target price for Greiffenberger AG shares and we are therefore suspending the rating. Should new events arise in terms of financing, we will check once again whether it is possible to establish a stock price target. We are therefore keeping Greiffenberger AG **under review**.

ANNEX

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