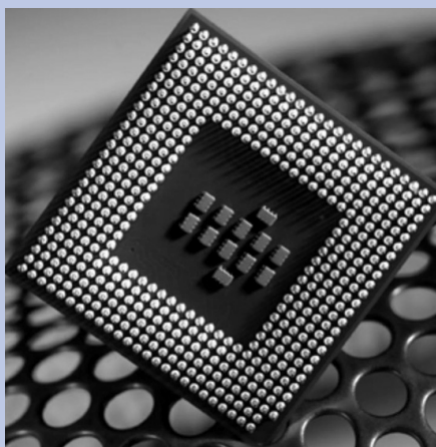


Date

03/07/2007

Vara Research GmbH  
Schweizer Straße 13  
60594 Frankfurt am Main  
[www.vararesearch.de](http://www.vararesearch.de)

**Vara Research**  
CREATING TRUST



### Hansen Sicherheitstechnik AG

ISIN: **DE000HAST002**  
Price (03/23/07) **30.50 €**  
Market cap. **38.1 mil. €**  
Free Float **19.3%**

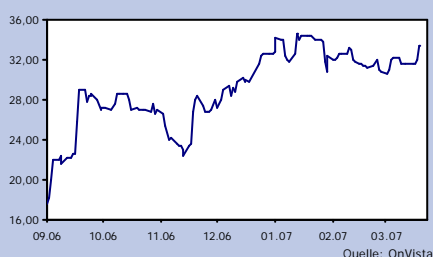
### Financial Calendar

April/May 2007 **2006 Annual report**  
April/May 2007 **Analyst meeting**  
May/June 2007 **AGM**

### Shareholder structure

Hansen Beteiligungs GmbH **80.7%**

### Price chart



### Michael Vara

+49 (0)69 – 66 36 80 71  
[vara@vararesearch.de](mailto:vara@vararesearch.de)

### Daniel Grossjohann

+49 (0)174 – 5610 800  
[grossjohann@vararesearch.de](mailto:grossjohann@vararesearch.de)

## Hansen Sicherheitstechnik AG

### Bright Future with Coal

■ **Rating: Buy**

■ **Target price: 51.25 €**

Hansen Sicherheitstechnik AG generates strong free cash flow in its core markets (PL, CZ and Russia). Since it invested in new production capacity in 2004/05, the Company is well-prepared for future growth. In the mid- to long-term, Hansen Sicherheitstechnik will benefit as supplier to hard coal mines from the strong steel industry as well as from the increasing world-wide energy demand. The market is hardly taking due account of growth at this time. However, the Management is forecasting average growth of 15% p.a. Furthermore, the share price should benefit from the planned increase in the free float as well as from increased transparency in information policy. We recommend buying the shares.

### Investment Highlights

- Energy growth option. The threshold countries' hunger for energy is driving the demand for hard coal. Outfitters such as Hansen Group benefit from mine operators' increases in capacity and productivity (less down time in safe mines).
- Steel market growth option. About half of all coal mined is used in producing steel. Coal (coke) is irreplaceable here. Planning new steel mills will lead to increases in capacity in coal mines.
- Building up a market position in China would lead to a growth surge. The Company is currently building up its market position in China through acquisitions. China is world-wide the largest producer of hard coal by far, the production level is—with roughly 2.5 billion tons—about half of total world-wide production.
- Hansen Group's business model is not capital intense. By producing locally, the Company not only maintains a competitive advantage by being near to the customer, it also contributes to cost leadership in the industry.
- Forecast: The high revenues from the year 2005 should stabilize in 2006 and 2007. Revenues are forecasted at about € 40 million this year. Net income for 2006 will amount to about € 3 million after non-recurring items, for 2007 € 4.5 million. By 2010 the Company (including acquisitions) targets to generate annual revenues of € 100 million and net income of € 10 million.
- Risks: 1) Effects of climate protection (CO2 emissions) 2) Added value through planned acquisitions 3) Trends in oil and coal prices 4) Protecting its high margins

### Key ratios

	Sales	EPS adj.	PE	EV/Sales	EV/EBIT	EBIT Margin	Div. yield	ROE (%)
2004	27.7	2.68	n.a.	n.a.	n.a.	20.6	n.a.	n.a.
2005	43.9	4.24	n.a.	n.a.	n.a.	21.4	n.a.	n.a.
2006e	40.6	3.65	8.5	1.18	5.9	20.0	3.2	27.4
2007e	42.3	3.91	7.9	1.13	5.6	20.1	3.6	25.3
2008e	47.0	4.43	7.0	1.02	5.1	20.1	3.7	24.1

Source: Company data / Vara Research GmbH

## Company Profile

Hansen Sicherheitstechnik AG, based in Munich, is a company specialized in the development and production of explosion-proof electrical equipment. This equipment is used primarily in underground hard coal mines. Hansen Sicherheitstechnik is present in seven countries (Germany, Poland, Czech Republic, South Africa, Russia, the Ukraine and China) with subsidiary companies. The Company's service portfolio includes engineering, service and repair services.

## Sales by Division (05)

Germany	19.1%
Poland	51.3%
Czech Republic	16.6%
Russia	6.5%
South Africa	6.5%

## EBIT by Division (05)

Germany	1.1%
Poland	64.9%
Czech Republic	30.6%
Russia	2.4%
South Africa	1.1%

## Corporate Information

Year founded	1969
IPO	2006
Listed segment	OTC
Index membership	none
Financial year	1/1- 12/31
Reporting	annually
Share buy backs	none
IR contact	Lars Kuhnke (GFEI)
CEO	Christian Dreyer
CEO contract term	8/16/2010
Board of Directors	Jürgen Tonn, Christian Nimmervoll, Andreas Pallauf

## ❖ Income Statement

(in millions of €)	2004	2005	2006e	2007e	2008e
Revenues	27.75	43.92	40.57	42.27	46.96
Gross margin	15.67	23.42	21.63	22.56	25.06
EBITDA	6.12	9.94	6.59	9.00	10.01
EBIT	5.73	9.39	6.12	8.50	9.45
Earnings before taxes	5.58	9.20	6.26	8.78	9.88
Income before minority int.	4.34	6.96	4.74	6.64	7.48
Net income	3.01	4.77	3.05	4.87	5.51
Adjusted net income	3.01	4.77	4.55	4.87	5.51
Reported EPS	2.68	4.24	2.45	3.91	4.43
Adjusted EPS	2.68	4.24	3.65	3.91	4.43
DPS	0.00	1.00	1.00	1.10	1.15

Source: Hansen Sicherheitstechnik AG / Vara Research GmbH

## ❖ Balance Sheet

(in millions of €)	2004	2005	2006e	2007e	2008e
Intangible assets	4.32	4.28	4.28	4.28	4.28
Receivables/inventories	11.93	17.50	18.50	19.28	21.42
Cash and securities	2.93	8.13	9.31	13.30	17.32
Total assets	22.55	34.44	36.65	41.43	47.58
Shareholders' equity	14.57	21.47	24.08	28.47	33.58
Provisions	0.16	0.34	0.35	0.36	0.38
Interest-bearing debt	2.42	4.22	3.32	3.32	3.32
Non-interest-bearing debt	5.41	8.41	8.90	9.27	10.30
Total equity and liabilities	22.55	34.44	36.65	41.43	47.58

Source: Hansen Sicherheitstechnik AG / Vara Research GmbH

## ❖ Key ratios

	2004	2005	2006e	2007e	2008e
EV/Revenues	n.a.	n.a.	1.2	1.1	1.0
EV/EBITDA	n.a.	n.a.	5.6	5.3	4.8
EV/EBIT	n.a.	n.a.	5.9	5.6	5.1
Reported P/E	n.a.	n.a.	12.6	7.9	7.0
Adjusted P/E	n.a.	n.a.	8.5	7.9	7.0
PCPS	n.a.	n.a.	7.7	7.2	6.3
Price/book value	n.a.	n.a.	2.0	1.7	1.4
Dividend yield (in %)	n.a.	n.a.	3.2	3.6	3.7
Gross margin (in %)	56.5	53.3	53.3	53.4	53.4
EBITDA margin (in %)	22.1	22.6	21.2	21.3	21.3
EBIT margin (in %)	20.6	21.4	20.0	20.1	20.1
Net margin (in %)	10.8	10.9	11.2	11.5	11.7
ROE (in %)	n.a.	38.6	27.4	25.3	24.1
Equity ratio	64.6	62.3	65.7	68.7	70.6
WC/revenues (in %)	23.5	20.7	23.7	23.7	23.7
Depr./revenues (in %)	1.4	1.3	1.2	1.2	1.2
Capex/revenues (in %)	5.2	4.2	1.2	1.2	1.2
Tax rate (In %)	22.2	24.4	24.4	24.4	24.4

Source: Hansen Sicherheitstechnik AG / Vara Research GmbH

**2006: Revenue trends declining slightly, Non-recurring items - Dividend unchanged at one Euro per share**

**Forecast 2007 and beyond**

**Acquisition strategy to accelerate market entry**

**Financing acquisitions through debt**

**Stabile markets in Eastern Europe, opportunities in threshold countries**

**Cost-cutting potential: closing the German workshop (2006) ...**

## ❖ Valuation

Hansen Sicherheitstechnik has confirmed its 2006 targets; revenues will reach roughly € 40 million, after € 44.3 million in the previous record year 2005. The EBIT margin will lie in the area of 20% of revenues before non-recurring items. The non-recurring items in the amount of about € 2.0 million in 2006 came from the closing-down of Hansen Engineering GmbH & Co. KG with a workshop in Gelsenkirchen. The dividend for 2006 will remain at € 1.00 per share, as in 2005. In doing so, the Company is distributing a total of € 1.25 million to its shareholders; this represents a payout ratio of 27.4%.

We forecast revenues of € 42.3 million for the 2007 financial year, slightly above those of 2006. This should stabilize the revenue surge from 2004 and 2005. Our revenue estimates were made assuming that oil prices will remain stable. In the past, the company, including acquisitions, has shown 15% average growth; the Company wants to maintain this level in the coming years, the accomplishment of which depends on the acquisitions. In our model we assume average organic growth of 6.7% until 2016. During the next few years the Chinese market should be the most important growth driver. Since the Chinese market will be tapped above all through acquisitions, we have not yet taken the growth potential into consideration in our model. In the year 2010, the Company, including acquisitions, targets to reach a sales volume of € 100 million. Net earnings in 2010 should be around € 10 million.

Acquisitions serve above all to access foreign markets quickly. The acquisition of technologies, on the other hand, does not play a role; it is a part of Hansen Group's acquisition strategy to transfer its own technologies to the acquired company and in doing so to improve that company's product portfolio.

With an equity ratio of 65.7% in 2006 and net liquidity of € 5.5 million, debt financing towards optimizing the capital structure is an interesting option. Note, however, that Hansen Sicherheitstechnik hardly has any collateral to offer possible lenders due to the low amount of property, plant and equipment. There are important buildings (factory buildings) in Poland and in the Czech Republic.

The Polish market is stable without any major possibilities for expansion, Hansen Group is already clearly the market leader, and the margin level is high. The picture is similar for the Czech domestic market, except the market is much smaller. Therefore, in the Czech Republic as well as in Poland, they are producing for the Russian market, which offers favourable sales potential. Hansen Group no longer generates any revenues directly from hard coal mines in Germany; the revenues generated in 2006 in the amount of € 3 million to € 4 million are from sales to German machinery makers; overall, German sales will stagnate or fall in the coming years. The subsidiaries in South Africa and Russia should show above-average organic growth. China is a young market for Hansen Group, a market in which Hansen wants to become active in the segment for high-value products (management systems, process control engineering).

The Hansen Group has identified two major sources for cost cutting (material and personnel costs) and initiated respective programs. The unprofitable German site has already been closed; lower wage costs at foreign subsidiaries are saving production

**...and  
Purchasing components  
in China...**

**...should be able to  
defend the currently  
high margins**

**The capex amount  
corresponds to  
depreciation**

**Peculiarities: high  
minority interests and  
unrecognized loss carry  
forwards**

**Despite high foreign  
sales no material  
exchange rate risks**

**Healthy balance sheet  
structure**

costs (of about € 1 million annually). The average staff cost ratio in the Group is around 20%.

There is further cost-cutting potential through purchasing components in China. The Company wants to purchase about one-third of all components used from suppliers in China in the mid-term. In doing so, the Chinese producers are given exact (verifiable) specifications. The costs of the components lie about one-third below the costs of purchasing from other countries. With a current total purchasing volume of about € 20 million (material cost ratio roughly 50%), the volume purchased via China would be about € 7 million, the material costs saved therefore € 2 million to € 2.5 million. Converting purchasing is a process that can only be implemented in the mid-term. The material costs saved in this manner will amount to € 0.5 million in 2007; keep in mind, however, that a part of the savings will be taken away from the end products on the price side. Steel prices only have limited impact on Hansen Group's material costs; according to the Company, they make up only about 3% to 5% of material costs.

Despite the cost-cutting programs which have been initiated, we forecast 20% margins in the coming years as well. Assuming that wide swings in oil prices will not lead to downward pressure on margins, we consider our margin estimates to be conservative.

Hansen Group invested in its own buildings and machinery in 2005. This way the Company is able to generate up to € 45 million in revenues without increasing personnel. By increasing personnel, yet without additional investments in property, plant and equipment, Hansen Group would be able to realize revenues of € 60 million. Therefore, investments will amount to roughly the amount of annual depreciation in the coming years. In our calculations, we assume investment and depreciation in the amount of almost € 0.5 million.

Part of Hansen Sicherheitstechnik AG's strategy is to have the managers of the subsidiary companies hold shares of the companies they manage, to give them the same motivation as entrepreneurs. A side effect of this motivational tool is the comparatively high minority interests. About half of the minority interests are distributed in the form of dividends. It is likely that unrecognized loss carry forwards from the German business in the amount of € 5 million will not be able to be offset against income after closing down the unprofitable German shop.

Through the purchase and production of products locally (in CZ, PL and RSA), the subsidiaries are not subject to any special exchange rate risks. Due to this natural hedge the exchange rate risk is limited to the translation exposure. Internal group purchasing at the Chinese subsidiary is in Euro.

Hansen Sicherheitstechnik AG's equity ratio is high at 65.7%. The return on equity (27.4%) is despite this "overcapitalization" at a high level.

Hansen Sicherheitstechnik AG's high equity ratio and high net liquidity (€ 5.5 million at year-end 2006) should be viewed considering the background of the acquisitions the Company is pursuing. Cash in the amount of € 2-3 million would be sufficient for the purely operative business, in our opinion.

**Low investment in property, plant and equipment necessary, Capital tied up in working capital**

**Fair value € 51.25  
(Price upside: 65.7%)**

**Based on a conservative free cash flow valuation we arrive at a fair value of € 57.50**

**Valuation scenario:  
Worst case € 20.75,  
Best case € 90.00**

Hansen Sicherheitstechnik's balance sheet (total assets 2005 € 34.4 million) reports a comparably high balance of inventories (2005: € 6.95 million) and receivables (2005: € 9.6 million), which is due to the rapid rise in revenues. These items are assets according to the Company, internal receivables due from the German subsidiary in insolvency (€ 0.7 million) were written off in 2006. In the years 2004 and 2005 there were only minor bad debt losses (1% and 0.6% of revenues). The inventory level is the required stock of components for operations.

We derived the fair value for Hansen Sicherheitstechnik from a free cash flow model and a peer group analysis. When weighing both approaches equally we end up with a fair value of € 51.25 per share.

In the following free cash flow valuation we applied a beta of 1.7 and a risk premium of 5%. The beta estimate was made from an ex ante point of view. Due to the short listing history thus far, the lack of transparency demands of the over-the-counter market segment and the low liquidity of the share on the market, we have set a correspondingly high beta. With an interest rate on debt of 4% and an interest premium of 100 basis points for Hansen Sicherheitstechnik, we arrive at a WACC of 9.5% after taxes, with the current capital structure. We used our own estimates up to 2016; afterwards we set a perpetual growth rate of 1%. When applying the assumptions discussed above we arrive at a fair value of € 57.50.

In order to get a feeling for the possible range of values, we estimated the value for the scenario when revenues stagnate long-term and the margins cannot be protected and fall to a value of 15%. In this worst-case scenario, the appraisal according to the free cash flow model delivers a fair value of € 20.75 per share, or rather a potential price setback of 33%. If, on the other hand, you assume that the Management can maintain the 15% average growth per year in the future as well, an appraisal of even € 90.00 can be justified (upside potential 192%)

Table 2: Valuation using the Free Cash Flow Method

	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
Revenues	40.6	42.3	47.0	52.2	58.1	61.0	64.0	67.2	70.6	74.1	77.8
EBITDA	8.6	9.0	10.0	11.1	12.4	13.0	13.7	14.4	15.1	15.8	16.6
EBITDA margin	21.2%	21.3%	21.3%	21.3%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%
E BIT	8.1	8.5	9.4	10.5	11.7	12.3	12.9	13.5	14.2	14.9	15.6
EBIT margin	20.0%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%
Taxes	2.0	2.1	2.3	2.6	2.8	4.3	4.5	4.7	5.0	5.2	5.5
+ Depreciation	0.5	0.5	0.6	0.6	0.7	0.8	0.8	0.9	0.9	0.9	1.0
- Investments	0.5	0.5	0.6	0.6	0.7	0.8	0.8	0.9	0.9	0.9	1.0
- Change WC	0.5	0.4	1.1	1.2	1.4	0.7	0.7	0.8	0.8	0.8	0.9
Op. cash flow	5.6	6.0	6.0	6.7	7.5	7.3	7.6	8.0	8.4	8.8	9.3
Discount factor	0.91	0.83	0.76	0.70	0.63	0.58	0.53	0.48	0.44	0.40	0.37
Value CF today	5.1	5.0	4.6	4.7	4.7	4.2	4.0	3.9	3.7	3.6	3.4
Cum. value CF	47.0										
NPV of RW	44.0										
Enterprise value	91.0										
- Net debt	-6.0										
- Minority interests	25.3										
Value of equity	71.6										
Fair value in €	57.54										
Upside pot. in %	86.0%										
WACC	9.5%										
L/T growth rate	1.0%										

Source: Vara Research GmbH

Peer companies from  
the explosion protection  
and capital goods  
industries

Fair value € 45.00

We chose from various groups of companies for the peer evaluation of Hansen Sicherheitstechnik AG. The firm R.Stahl, listed in Germany, operates in the area of explosion protection, not in the mining sector, however. Elexis AG's SME (small and medium enterprise) subsidiaries are active in the area of electrical engineering and mechanical engineering for the capital goods and manufactured goods industry, target segments are the steel and printing industry. The other companies are companies which are established in various areas of the capital goods and manufactured products industry, and are comparable to Hansen Sicherheitstechnik in respect to market capitalization, free float and margin situation.

For the valuation according to the peer group comparison we compared the Company with the comparison companies at their forecasted average growth expectations for the period 2006 to 2008. We derived the fair value from a regression equation. When evaluating the valuation, consider that Hansen Sicherheitstechnik will supposedly be in a phase of consolidation in the years 2006 to 2008. Management's long-term growth expectations of an average of 15% p.a. do not enter into the valuation, therefore. Based on the peer group analysis, we arrive at a fair value of € 45.00 per share.

Table 1: Peer Group Analysis, Valuation (as of 03/01/2007)

	MC (€m)	EV/ Sales (07e)	EV/ EBITDA (07e)	EV/ EBIT (07e)	EV/ FCF (07e)	PE (07e)
Dr. Hönle	41.7	1.30	6.59	7.71	13.22	13.15
Elexis	205.6	1.23	7.64	8.46	16.05	12.92
Impreglon	34.3	1.62	6.20	8.20	11.85	14.29
Manz Automation	106.0	1.96	12.09	14.97	25.34	25.23
Plan Optik	25.2	2.69	7.70	8.88	14.19	13.09
R. Stahl	206.7	1.21	7.73	9.91	16.36	17.09
Technotrans	155.7	0.88	6.59	7.65	14.62	13.63
Hansen AG	38.5	1.13	5.30	5.61	7.42	7.91
Fair multiplier		1.14	6.71	7.87	12.53	12.58
Implied fair value		31.16	41.09	46.38	57.34	49.17
Fair value						45.03

Source: JCF / Company data / Vara Research GmbH

Table 2: Peer Group Analysis, Margins und Profitability

(in %)	EBITDA Margin (07e)	EBIT Margin (07e)	Netto Margin (07e)	Equity ratio (Sept 06)	ROE (06e)
Dr. Hönle	19.7%	16.9%	12.4%	86.0%	10.1%
Elaxis	16.1%	14.6%	9.4%	39.7%	28.9%
Impreglon	26.2%	19.8%	10.9%	52.6%	23.6%
Manz Automation	16.2%	13.1%	8.2%	55.8%	19.7%
Plan Optik	34.9%	30.2%	22.4%	69.7%	41.8%
R. Stahl	15.7%	12.3%	6.7%	39.7%	16.3%
Technotrans	13.4%	11.5%	6.7%	57.7%	19.4%
Average	20.2%	16.7%	11.3%	58.4%	23.7%
Hansen AG	21.3%	20.1%	11.5%	65.7%	27.4%
Discount/premium	5.4%	20.8%	2.0%	12.5%	15.6%

Source: JCF / Company data / Vara Research GmbH

Table 3: Peer Group Analysis, CAGR (06e-08e)

	Umsatz	EBITDA	EBIT	EPS
Dr. Hönle	12.9%	27.3%	27.0%	17.7%
Elaxis	12.8%	14.8%	15.8%	19.1%
Impreglon	9.5%	7.2%	9.6%	21.6%
Manz Automation	23.6%	30.6%	32.3%	30.8%
Plan Optik	40.9%	46.9%	48.7%	47.2%
R. Stahl	9.6%	14.1%	20.7%	22.0%
Technotrans	13.5%	16.1%	17.2%	16.4%
Average	16.8%	21.9%	23.9%	23.4%
Hansen AG	7.6%	8.0%	7.9%	10.1%
Discount/premium	-54.9%	-63.5%	-67.1%	-57.0%

Source: JCF / Company data / Vara Research GmbH

## Strengths

## ❖ SWOT Analysis

- Hansen Sicherheitstechnik has a long history. The Company was founded in 1969 and has been profitable in its business for years.
- Experienced Management. The current CEO, Mr. Dreyer, has been in the Company since 1991. In this time, Hansen Group has developed from a company with 40 employees to a group with currently about 360 employees.
- Market shares. Measured in terms of revenues, Hansen Sicherheitstechnik AG's share of the world market lies just under 10%. The number of competitors world-wide is relatively small; Hansen Group could be the second largest company in the safety engineering for coal mining segment.
- Cost leadership. According to the Company, it maintains cost leadership due to its local production facilities near the mines.
- Competitive structure. The main competitors are well-established companies from Germany and Great Britain which are active internationally as well and hold European certifications with the highest safety standards. In the ultimate markets such as China and Russia/ CIS there are local competitors as well.
- Market entry barriers. The market entry barriers in the form of national certifications and reputation in the market are high. There have not been any entries into the market in the markets considered demanding in respect to the certifications.
- Local regulations. Local regulations do hamper international expansion because new certification procedures are necessary. Hansen Group is, however, in a comfortable situation in this respect. Since the home market (EU) has demanding requirements, the products should quickly receive permits for the high-growth markets in the threshold countries.
- Margin strength. The Company has positive free cash flow and generates EBIT margins above 20%. Hansen Sicherheitstechnik attained a 21.4% EBIT margin in 2005; in 2004 the EBIT margin of 20.7% was at a comparatively high level.
- Hansen Sicherheitstechnik AG is debt-free; the equity ratio is currently at roughly 65.7%.
- Low capital intensity. Hansen Group's business model requires little investment in property, plant and equipment (buildings and machinery), the working capital intensity is high, on the other hand.
- Positive setting. According to information provided by Deutsche Steinkohle AG (DSK), the world-wide setting for mining technology machinery is currently very favourable. German technology is recognized world-wide as the leader.
- Ultimate market. The ultimate market segment (mine operators) is currently more on the fragmented side, world-wide. Small, technologically outdated mines are not considered as customers for Hansen Sicherheitstechnik AG, however.
- Suppliers. Hansen Group uses standard components to manufacture its products; there are, therefore, no dependencies on individual suppliers. The risk of non-availability of components is therefore negligible.

### Weaknesses

- Proximity to the customer. Hansen Group produces locally at the customer's location in the most important markets (Poland, Czech Republic and South Africa). This proximity to the customer is important for maintaining long-term customer relationships, which also includes providing services locally. Furthermore, the proximity to the customer contributes to cost leadership.
- Management shareholders. Shareholdings of the Management at the local level (of the subsidiary companies) is a part of the company philosophy. This increases local management's motivation, since it takes on the role of entrepreneur and not purely an employee role.
- Valuation level continues to be attractive. Despite the Hansen share's impressive performance, the share's value continues to be attractive (EV/revenues 2007e = 1.13). The share price is supported by the dividend yield; for 2005 the company distributed one Euro per share and plans to distribute one Euro per share in 2006 as well.
- Danger of conflicts-of-interest. The CEO of Hansen Sicherheitstechnik AG, Mr. Dreyer, is—through his majority share of Hansen Beteiligungs-GmbH (indirect)—also the largest shareholder of Hansen Sicherheitstechnik AG. This could result in conflicts-of-interest.
- The Company's Management Board has one member. Therefore, the Company is dependent upon the person of the CEO.
- Reputation. Error-free performance has stronger effects on manufacturers of safety-relevant products than on the manufacturers of other products. Hansen Group can only maintain its reputation in the market and therefore reach its own sales potential if its own products continue to operate error-free. Thus far, however, long-standing customers choose proven Hansen products when purchasing new or replacement products.
- Declining markets in Germany and the Czech Republic. Sales potential is shrinking in Germany and the Czech Republic. In Germany, it has already been announced to cease hard coal production by the year 2016.
- Transparency. Shares of Hansen Sicherheitstechnik are quoted in the over-the-counter market. WpÜG (Securities Acquisition and Takeover Act) and WpHG (German Securities Trading Act) are therefore not valid because over-the-counter trading is not an organized market. The share's transparency is limited compared to shares traded in the Prime Standard market.
- Brief capital market history. The Company looks back on a short history in the capital market. Since the capital market does not yet know the cycle, it will discount the share price.
- Declining return on equity in 2006. With an equity ratio of 65.7%, the Company is currently overcapitalized. Despite the high capitalization, the Company was able to attain an ROE of 38.6% in 2005. Due to earnings remaining the same at the adjusted level, we expect the return on equity to decrease in 2006.
- Low liquidity of the share. Daily trading volumes with Hansen Sicherheitstechnik in the trading places are rather low. This is particularly due to the low free float of the share of about 20%, communications with the capital market have been rather reserved thus far.

## Opportunities

- Participation in the energy boom. As outfitter of underground coal mines, Hansen Sicherheitstechnik benefits from mine openings, modernisation and capacity increases of coal mines. Increasing energy consumption will be accompanied by increasing coal demand, since coal is available in sufficient quantities and is cheaper than other sources of energy.
- Participation in the steel boom. Coal is required for steel production. Capacity increases in steel mills lead to a favourable setting for producers of explosion-proof electrical products, because the surrounding coal mines often are modernized or expanded during these capacity increases.
- Energy hunger of threshold countries. The rapidly-growing threshold countries China and India have a substantially higher share of coal in their energy mix than the industrial nations. As a result, the demand for coal is expected to grow faster than world-wide energy consumption. Increasing capacities in coal mining would be a driver for sales of explosion-proof electrical products. Besides China and India, Russia and South Africa are also growth markets.
- Growth in China. In China, according to official data, currently about 6,000 people die in coal mining accidents annually. Chinese state authorities therefore plan to improve mine safety and to focus on large mines. Despite this favourable setting, China remains a difficult market for foreign companies due to its idiosyncrasies. Hansen Group will limit itself to the sale of high-quality electrical products in China.
- Material cost-cutting program. The cost-cutting program, which has been initiated, provides for savings when purchasing material. Roughly one third of material costs is supposed to be purchased in China in the mid-term, at prices which lie about one third below the world market level. By 2008, material costs should be lowered by about € 2.5 million in this manner. It should, therefore, be possible for Hansen Group to maintain the currently high margin level.
- Underground mining is increasing. Coal as a source of energy is available nearly world-wide, when the sources that are easy to mine (open pit) shrink, the necessary use of technology will increase. The equipment provided by Hansen Sicherheitstechnik is used underground.
- Closing the German workshop. Closure of the German workshop is cutting about € 1 million of personnel costs.
- Coal's share of the energy mix is primarily dependent upon the price of oil. Since world-wide oil reserves are substantially more limited than coal reserves, the oil price—as seen over 1-2 decades—may rise higher than overall inflation and the coal price; the use of coal—which will continue to be the cheaper energy supply—should increase.
- Development of nearly emission-free coal-fired power plants. With the help of new technologies (clean coal technologies) it was possible to develop a new concept for a nearly emission-free coal-fired power plant. The CO<sub>2</sub> produced by this type of power plant is liquefied and stored underground. A commercially-operated power plant of this type could go into operation beginning in 2010. This could improve acceptance of hard coal as a viable energy source.
- Safety restrictions. New national regulations impacting mine safety in individual target markets could lead to a surge in sales

## Threats

for the makers of the respective products. The new super standard IEC-EX is on the way.

- Higher valuation. It would be possible to rate the Hansen share higher by increasing the free float and through more transparency (transfer into a higher trading segment).
- Political instability. Political instability in Hansen Sicherheitstechnik's markets, in China or Russia for example, may have a negative impact on Hansen Group's sales in these regions. Furthermore, unrest in China would impact world demand and world market prices for hard coal, which may finally impact outfitters of mines.
- Levelling-off of economic growth in China. A levelling-off of the economic boom in China could result in Chinese manufacturers of electrical products that are comparable to those of Hansen Group pushing into international markets. This could increase the competitive pressure in regional markets in which Hansen Sicherheitstechnik is already active.
- Leveling-off of the raw material boom. A levelling-off of the raw materials boom, particularly in the steel segment, is a risk for the sales trends of Hansen Sicherheitstechnik AG's products. The trend in Hansen Group's margins is also heavily dependent upon the trend in oil and gas prices.
- Liability risk. If defects occur in Hansen products that lead to accidents, or if accidents occur in mines, in which Hansen products are used, the Company could be subject to high damages claims. This scenario is, however, very unlikely, because the equipment is accepted by the authorities and inspected by mine operators; accidents can only be caused by operator error.
- Reputation risks. Accidents in mines, in which Hansen products are used, could—regardless of what the final cause of the accident was—lead to lawsuits with high amounts in dispute. The Company's reputation would likely suffer from such lawsuits.
- Inefficient mines of existing customers. Hansen Group generates a material share of its revenues with services (about one-third) and replacement sales from business with existing customers. If mining companies that are Hansen Group's customers decommission capacity due to inefficient mines, this would impact directly on Hansen Sicherheitstechnik's revenues.
- Replicas of Hansen products. Hansen Group's products are not protected from replicas; rather only through licensing according to local mining regulations. Potential competitors could attempt to make replicas of Hansen equipment to receive a local license and then sell the replicas for less. Hansen products are, however, not available on the market to competitors, so that it would be difficult to attempt to build a replica.
- World-wide climate protection agreement. If countries do come to terms on a reduction of world-wide CO2 emissions, which should be achieved by way of the energy mix and not by way of modern coal power plants with high efficiency, this has a direct impact on mining capacity and therefore on Hansen's most important ultimate customer group.
- Competitors could relocate their production abroad as well; Hansen Group's competitive advantages, proximity and cost leadership, would suffer. But the competitors are hardly able to relocate their production in the short term.

- Project delays. A slower or lessened realisation of planned revenues in Poland or Russia could lessen planned revenues for 2007 and 2008.
- Exchange rate risks. Through its global activities, Hansen Group is impacted by exchange rates. These are naturally hedged by purchasing and selling mostly in the respective local currency.
- Quality assurance locally. Hansen Sicherheitstechnik makes use of its excellent reputation as a German quality company in the market, yet produces locally as well. It is important for this strategy that the Company continue to be successful in performing efficient quality control locally.
- Retirement of experienced CEOs. The CEOs of the subsidiaries in South Africa and the Czech Republic are already sixty-five years old and will retire within the next three years. Suitable successors for these duties have already been found, yet specific know-how and local contacts could be lost.

**Hansen - Specialist for  
explosion-proof  
electrical equipment**

## ❖ Company Profile

Hansen Sicherheitstechnik AG, established in 1969 and based in Munich, is a leading developer and producer of explosion-proof electrical systems. The Company also provides product-related services. The Company generated revenues of € 43.9 million in 2005 (2004: € 27.8 million) with its products, products which are mostly used in coal mines. The jump in revenues reported in 2005 should be stabilized in 2006 and 2007, at annual revenues of roughly € 40 million. In 2005 the Company reported EBIT of € 9.4 million (2004: € 5.7 million), which corresponds to an EBIT margin of 21.4% (2004: 20.7%). The Company, which currently employs about 360 persons, is represented internationally with subsidiaries in Poland, the Czech Republic, South Africa, Russia, China and the Ukraine. During the last two years the Group has generated about 83% of its revenues outside of Germany.

Table 4: Company History

Year	Event
1969	Founding of the Company by Lars Hansen and Ralf Reinders in Gelsenkirchen
1991	Mr. Dreyer acquires 25% of the shares and becomes a member of Management, export activities are started, and the Company has 35 employees
1992	Founding of the 80% subsidiary "Hansen+Ostroj" in the Czech Republic
1993	Founding of the 70% subsidiary "Hansen+Elgor" in Poland
1996	Founding of „Hansen Holding GmbH“ in the form of a holding company based in Munich, the Group employs 200 persons
1997	First delivery of own transformers to Poland, the Czech Republic and Russia
2000	Acquisition of the mining electrical department of Reyrolle (pty) Ltd. and merger with Hansen+Genwest in Johannesburg/South Africa
2003	Founding of SIB Hansen in the Russian mining region Kusbass
2005	Holding company changes legal form into an AG (German stock corporation), about 400 employees
2006	July 3: Initial public offering of „Hansen Sicherheitstechnik AG“

Source: Hansen Sicherheitstechnik AG

**Equipment increases  
safety and productivity**

**Hansen is more  
specialized than many  
competitors**

The primary end users of explosion-proof electrical systems are underground coal mines. In underground coal mines methane gas and coal dust provide for a constant explosion hazard, since this gas and dust mixture can be ignited by sparks, which are unavoidable when turning on electrical equipment. Since various kinds of electrical equipment (such as excavators, pumps, fans and conveyors) are employed, explosion-proofing is unavoidable.

Hansen Sicherheitstechnik provides transformers, switching stations, switchgear, control stations with process monitor and control, as well as data lines to their customers. Within the group of suppliers of capital goods for mining operations there is a

**Mine safety also serves  
to avoid high downtime  
costs**

**Electrical engineering a  
decisive element**

**Local certifications ..**

**.. and local production  
with standard  
components**

**All of the services  
connected with use of  
own equipment**

**Stocks of components  
necessary, little capital  
tied up with production  
equipment**

**Holding structure**

differentiation between mechanical engineering companies and suppliers who are specialized in electrical engineering. Hansen Group is clearly focused on the electrical engineering segment. All of the equipment in Hansen Sicherheitstechnik's product portfolio is explosion-proof. Compared with a few competitors, Hansen Sicherheitstechnik AG's range of products is somewhat slimmed down. The Company considers itself a manufacturer of subsystems. Since the competitors' product portfolios also include pumps and fans for underground applications, these companies are able to present themselves as all-in suppliers to mine operators.

The use of high-quality explosion-proof electrical equipment is making coal mining more safe and productive. The increased productivity is explained by the fact that accidents are always accompanied by expensive production downtime, the loss of equipment and excavators and in the worst case mine closure. In high-productivity operations with production outputs of 10,000 tons per hour, the downtime costs can run up to half-a-million US dollars.

To operate the mines, the mine operator requires the know-how of electrical engineers in addition to miners and mechanical engineers. Compared to the costs of the required machinery, the electrical products are only a small portion; they are, however, extremely important for the smooth operation of the mining process.

Individual markets are protected from market entry through local certifications. These certifications are the basic requirement, in order to be able to sell the products relevant for mine safety in the respective market.

It is a part of Hansen Group's business model to produce the products in the larger target markets (PL, CZ, RSA, RUS) locally; in this manner one can make products based on leading German technology with low labor costs. Another advantage of local production is flexibility with customers. Since Hansen Group uses standard components for constructing its electrical equipment, the availability of components is not a problem.

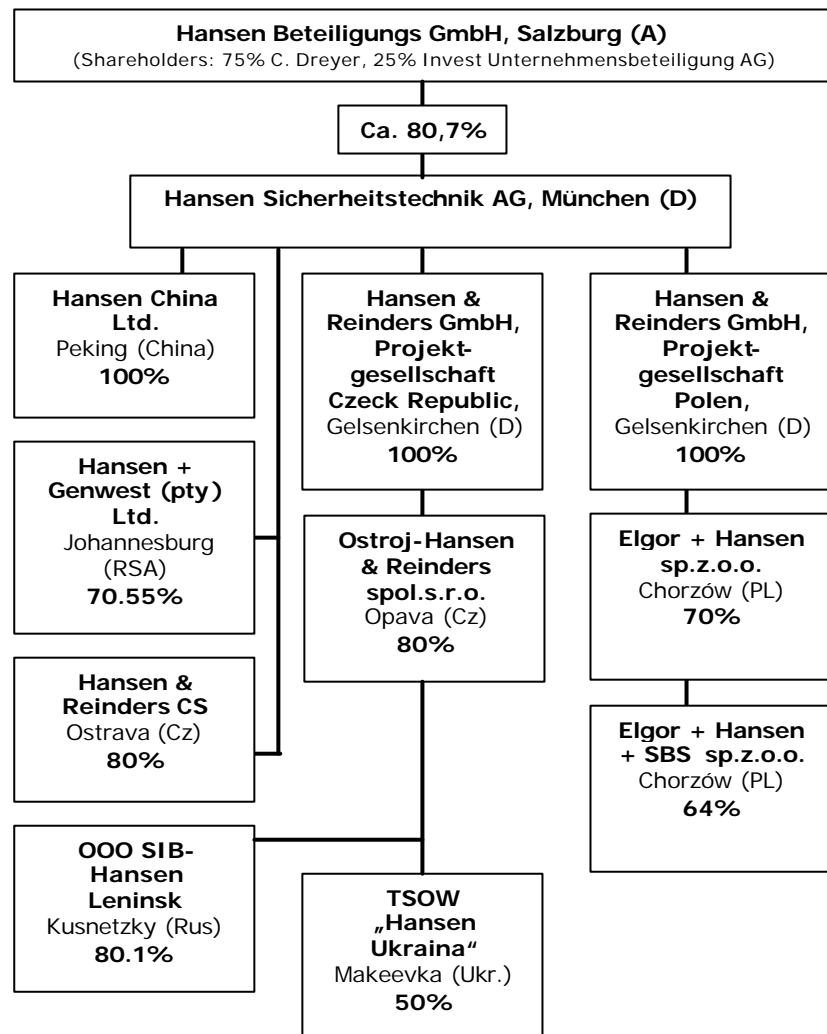
In addition to electrical equipment, Hansen offers services which are in close connection to its own products. These include engineering, service, repair and consulting services. The Company generates about one-third of its revenues from these services. The service and repair services are follow-on business from product sales; these follow-on jobs smoothe out the revenue structure. In order to be able to offer the mine operators this service, the Company has to have personnel available locally.

The necessary stockage of components and the high level of receivables (€ 9 million at the end of the 2005 financial year) require a high balance of working capital. The capital tied up with property, plant and equipment is—with € 3.9 million—low and corresponds to about 11.4% of total assets. In 2004/2005 the Company increased its investments in machinery and buildings; the capital volume at the time corresponds to half of the current balance (about € 6 million).

Hansen Sicherheitstechnik AG is set up in the form of a holding company, yet consciously does not assume central functions of larger scope. Purchasing terms and conditions are partially negotiated centrally, individual shops can then order the quantity they need at the negotiated terms and conditions. Overhead costs (group allocations) are not invoiced to the subsidiaries in order to

keep the cost items transparent with the CEOs and to ensure motivation. In addition to the parent company, two subsidiaries are based in Germany, the other companies are in Poland, the Czech Republic, the Ukraine, Russia and China. Majority shareholder of Hansen Sicherheitstechnik AG is Hansen Beteiligungs GmbH, of which Mr. Dreyer, the CEO of Hansen Sicherheitstechnik AG, holds a 75% share.

Graph 1: Organigramm of Hansen Sicherheitstechnik AG



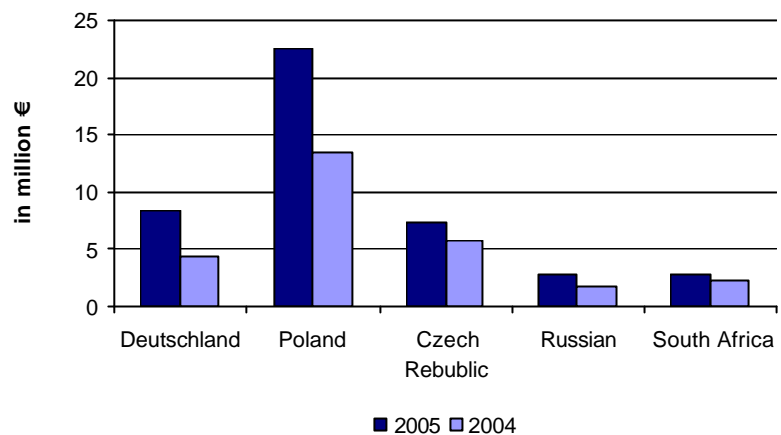
Source: Hansen Sicherheitstechnik AG

**Subsidiary with the highest revenues in Poland**

Hansen Sicherheitstechnik is split up into five regional segments. In 2005 the Polish subsidiary had the highest revenues by far, it was responsible for over fifty percent of the Group's external revenues. It was possible to report increased revenues in all segments from 2004 to 2005.

The German workshop remained unprofitable in 2006 and was therefore shut down at the beginning of this year; the German workshop's customers will be served by the shops in Poland and the Czech Republic in the future. See the following graph for a breakdown of revenues by regional segment in 2005.

Graph 2: Regional Revenues by Company Location (2005)



Source: Hansen Sicherheitstechnik AG

**Business trends  
correlate with energy  
price trends..**

**..and the steel cycle**

**Strategy: German  
quality at good prices**

**Geographic focus  
wandering further in  
threshold countries**

Coal is currently the most important and at the same time one of the cheapest energy supplier for generating electricity world-wide. Increasing costs for generating electricity could be countered in part through a higher share of electricity generated from coal-fired power plants. If the increasing demand for coal results in extending capacity or opening new mines/shafts, specialized suppliers such as Hansen Sicherheitstechnik will benefit greatly. The suppliers of mine modernizations will benefit as well, whose goal is to increase the safety of miners and increasing productivity, through fewer production still stands caused by accidents.

Coal (coke) is irreplaceable in the steel production process. A rise in steel demand always results in a rise in the demand for coal as well. As a rule, steel mills execute multiple-year supply agreements with local coal mines. The respective measures increasing capacity at the coal mines lead to increasing demand for excavators and accessories as well. Due to the mines' actions towards year-end, i.e. in the months of November and December, to spend their remaining budgets, Hansen Sicherheitstechnik AG's revenues show a certain seasonal cycle.

Hansen Sicherheitstechnik's strategy is to present itself in the markets as a supplier of high-quality German mine safety technology. Hansen Group can offer these products at good prices, because the Company has production capacities in low-wage countries. Furthermore, these production facilities are close to the customer, so that there are no material transportation costs. It is still important for Hansen Group to perform quality testing locally, to continue to be able to guarantee the quality the customer is used to.

Above all, threshold countries such as Russia, China and India are satisfying their increasing energy demand with cheap domestic coal. The share of coal in the energy mix of these countries is high. (Power plant) capacity is being increased, excavation technologies are being modernized and improved safety standards established. Hansen Group has discovered these interesting markets and is already represented in some of them. Russia, South Africa and China are at the top of Hansen Sicherheitstechnik's priority list, followed by India, Australia and the USA.

**2007 targets: € 40 million revenues, 20% EBIT margins, acquisitions to be prepared.**

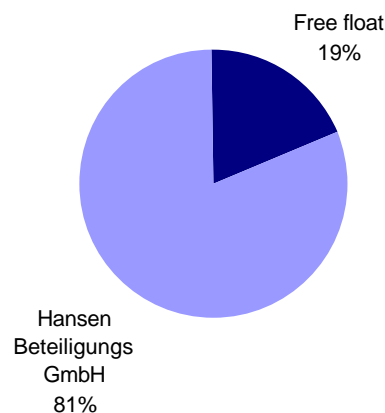
**CEO is indirectly largest shareholder – Free float to be increased**

**Company run by CEO**

As is already the case for 2006, it will be the goal in 2007 as well to stabilize the high revenues of the year 2005. The forecasted revenues for 2007 lie at about € 40 million. The EBIT margin should lie at 20%, which should result in net earnings of € 4.5 million. At the same time the Company intends to prepare for expansion into new countries. Acquisitions of companies from regions in which Hansen Group has not been active operationally are in preparation. The background is the goal to provide for rapid entry in new national markets. The Company wants to maintain the 15% p.a. growth it has shown the last two years through organic growth and acquisitions. Including planned acquisitions, the Company plans to reach revenues of € 100 million in 2010 with net income of € 10 million.

A total of 1.25 million shares of Hansen Sicherheitstechnik AG has been traded since 07/03/2006 on the over-the-counter market of the Deutsche Börse. Majority shareholder is Hansen Beteiligungs GmbH, Salzburg, which holds about 80.7% of the shares. Majority shareholder of Hansen Beteiligungs GmbH is the CEO of Hansen Sicherheitstechnik AG, Mr. Dreyer with a share of 75%. Over the long term, Hansen Beteiligungs GmbH's investment in Hansen Sicherheitstechnik AG will be reduced to below 50%, this reduction is intended to be easy on the share price (no issue through the stock market). A reduction in this share is conceivable through capital increases towards financing acquisitions.

**Graph 3: Shareholder Structure (as of 12/2006)**



Source: Hansen Sicherheitstechnik AG

Currently the Management consists solely of the CEO Mr. Christian Dreyer, which is appropriate due to the size of the Company and the holding structure.

The motivational structure for the Management in the subsidiary companies—with financial investment in the subsidiary they are in charge of—reduces the governance expenses of the holding company. The Board of Directors is made up of the Chairman Dr. Jürgen Tonn, the Vice Chairman Christian Nimmervoll and Mr. Andreas Pallauf.

## ❖ Market- and Macrosetting

### The Market for Safety Technology in Mining

Hansen Sicherheitstechnik AG is a leading supplier of explosion-proof electrical products for use in underground coal mines. Hansen Group and its competitors have specialized in safety technology that makes working underground more safe. Through increased safety, coal mining also becomes more efficient, since accidents interrupt operations, lead to expensive down time and accidents often lead to damage to excavators. Accidents also harm the reputations of mine operators.

When mining coal in underground hard coal mines there are specific hazards such as explosions, cave-ins of galleries or water in leakage. The most critical one in modern mining may be the explosion hazard. Two substantial hazards that can lead to explosions are coal dust and methane gas outbursts. These hazards do not allow themselves to be removed dependably; therefore explosion-proof electrical equipment is necessary. They prevent the gas mixture from igniting through complete shielding of the equipment, for example from sparks which necessarily occur when electrical equipment is switched on. The dependability of these products is the highest priority, since the lives of the mine workers and the further utility of the mine depend on this.

The market volume relevant for Hansen Group may lie around € 500 million. With revenues of € 45 million, Hansen Group had a market share of around 9% in 2005. In doing so, Hansen was the world-wide second largest company in the segment behind Becker SAIT, a company also from Germany and not listed, whose world-wide market share is estimated at around 14%.

Certification by the responsible national authorities is a material market entry barrier. The technology—regardless of its actual quality—may not be implemented in the mines of the respective country without certification by the respective national authority. Market entry for established companies from countries with high standards (i.e. the EU countries) into the markets of threshold countries may therefore be easier than the other way around.

Dependability is the highest criteria for the application of explosion-proof electrical equipment. This will make market entry difficult for low-price vendors and for companies that attempt to enter the market by way of price, because they have no reputation in the market.

Merely selling through price appears difficult in safety technology for mines, because undependable products can lead to mine accidents and interrupt production. Even those mine operators for whom the safety of mine workers is not the highest priority, rather whose purely economic reasons (avoidance of production downtime and loss of excavators underground) are foremost, would need to prefer high-quality solutions.

Products for mine safety: safety increases production output

Sources of hazards in coal mines – coal dust and methane gas outbursts

World market volume for safety technology in coal mines at € 500 million

Market entry barriers in the area of safety: national certification...

...and reputation

Safety and efficiency belong together in mines

**Growth driver:  
The world economy**

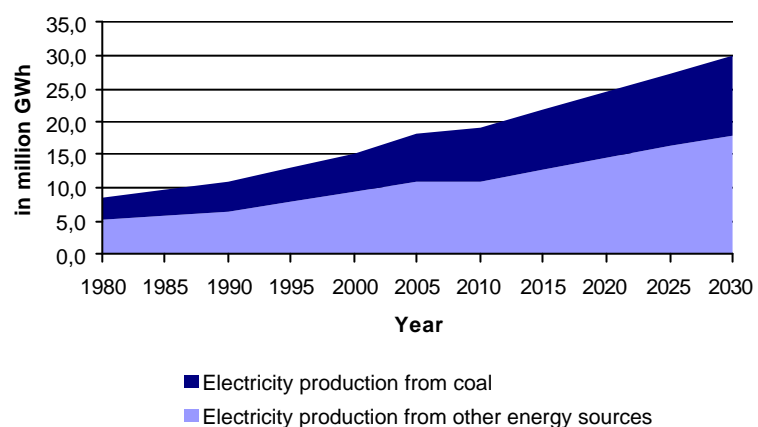
**Coal – a cheap source of  
energy, ...**

The largest growth driver for sales of safety solutions for underground coal mines is the economic setting. The demand for steel rises along with an improving economic situation and energy consumption increases. The increased demand for coal leads to the opening of new mines, reopening of mines that had become unprofitable and capacity extensions at existing mines. In these cases investments are most often made to outfit the mines as well, from which the makers of special equipment/products for coal mines benefit.

#### **Hard Coal Demand Driven by Energy and Steel**

Coal is one of the main energy sources available in the long-term (next to oil and natural gas); in addition, coal is also one of the cheapest energy sources. Nearly one half of annual global coal production is for energy production. World-wide energy consumption is growing at about the same pace as the growth of the world economy. Coal will also remain the most important energy source for electricity production in the future, in the long term (1980-2030), coal-fired power plants provide a 40% share of electricity production. This proportion is currently 31% in the EU-25. The European Commission forecasts a further decline in the share of coal in the EU energy mix. The threshold countries report a high share of coal in electricity production. The following graph shows the historical and forecasted world-wide energy consumption as well as coal-fired power plants' share thereof.

**Graph 4: World-wide Energy consumption by Type of Production**



Source: U.S. Department of Energy (DOE) 2006

**...which is irreplaceable  
in the production of  
steel**

Coal is irreplaceable in the production of steel. As a result, the demand for steel increases the demand for coal, which has to lead to increases in capacity or opening new mines when the capacity utilization is already high. Currently about half of the world-wide coal production is for steel production. China is currently driving the steel demand; about 30% of the world-wide steel consumption in 2005 was in China. According to the Organisation for Economic Cooperation and Development (OECD), steel production rose by 8% to 1.22 billion tons, Chinese production rose by over 20%. Currently the cyclical steel market is in its sixth year of a phase with strong growth in steel production and steel demand.

**Steel capacity being expanded in the emerging markets**

**Long-term availability of coal is ensured.**

**Appropos mine safety: major drivers are energy and steel demand**

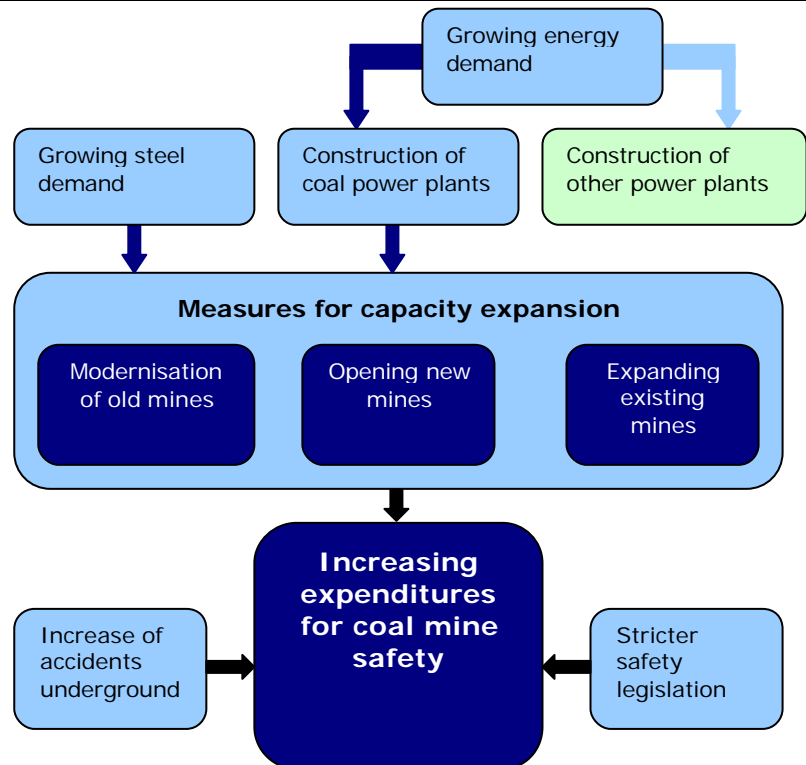
According to the OECD's forecasts this trend will continue, the momentum shown in 2006 in growth of the production volume will slow down slightly in 2007. It is expected that the world-wide steel demand will grow 5% in 2007.

Steel production capacity is mostly near natural coal reserves, since the transport of coal required for production over long (terrestrial) routes is cost-intensive. New steel capacity is being built up in China, India, Latin America, as well as in Russia and in the CIS countries. These are also the countries for which Hansen Sicherheitstechnik has set its priorities for its own international expansion. In Europe and North America, steel capacity will stagnate or decline slightly.

Other than is the case for sources of energy such as oil and natural gas, world-wide coal reserves are proven for the long term. The United Nations assumes that world-wide coal reserves in the amount of 5980 tons exist, thereof 2600 tons are proven, and the rest is estimated. Annual coal consumption in 2005 was a little over 5 billion tons. This means that even with increasing coal consumption the global hard coal reserves will last for several hundred years.

We attempted in the following diagram to represent the drivers for demand for explosion-proof electrical equipment for use in underground mines schematically. In addition to economic factors, political considerations sometimes play an essential role in outfitting mines with explosion-proof equipment. An example for this would be the Chinese authorities' efforts to lower the number of casualties of miners through technological partnerships, as well as state restrictions concerning the national minimum standards for mine safety.

Graph 5: Growth Drivers for safety Investments in Mines



Source: Vara Research GmbH

**Mine safety: German companies are leading technologically**

**Regional coal markets with specific peculiarities**

**Use of hard coal in Germany mostly through power plants**

**Germany: Coal imports dominate. Halt to domestic coal production planned.**

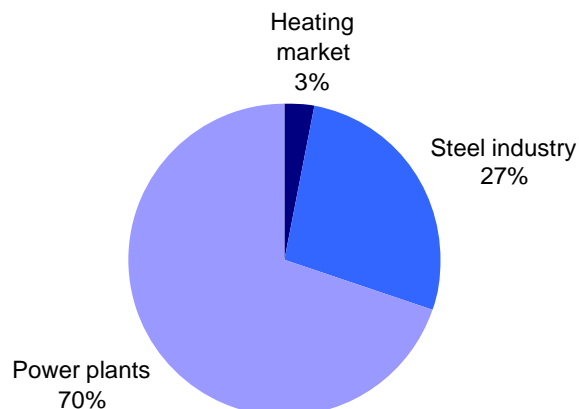
## Hard Coal – Regional Markets

Europe has a long mining tradition. European technology in this segment is recognised world-wide as the most modern. Companies from Germany are the technological leaders world-wide in the market for machinery and electrical products for use in mines. Along with the foreseeable end of German hard coal mining activity, these companies lose the German home market. Mainly German and British companies have already been active in non-European countries for years. Since Europe has the highest standards for mine safety world-wide, European companies are in a favourable situation when they apply for foreign certifications in order to enter the markets there.

Natural coal reserves can be found in nearly all regions on earth. Regional markets are marked by specific differences in respect to the kind of coal reserves (depth of the reserve) and the importance of coal for the domestic industry. Also relevant for companies such as Hansen Sicherheitstechnik AG is the legal framework valid for mine safety and the certification process, which is necessary for market entry. We have therefore represented relevant sales markets in the following passages, beginning with the German market.

The dominating source of coal usage in Germany is currently hard coal-fired power plants with a 70% share, as late as 1980 the respective share was still only 42%. The steel industry is the second largest hard coal user with 27%.

Graph 6: Hard Coal Usage (Germany 2005)



Source: Deutsche Steinkohle AG, 2006

About 60% of the coal used in Germany in 2005 was imported. This is because German hard coal reserves can currently only be mined at costs which lie above the world market prices. This is primarily due to the depth of the reserves. It is therefore more economical in the mid term to cease producing subsidized coal and to import it instead. This could have a negative impact on the 60-70 small to mid-size German special suppliers of machinery for mines. German specialist machinery makers have established their

**Hansen Group:  
Strategic focus on  
emerging markets**

**Customer loyalty and  
revenue smoothing  
through local services**

**Russia the country with  
the world-wide largest  
coal reserves,...**

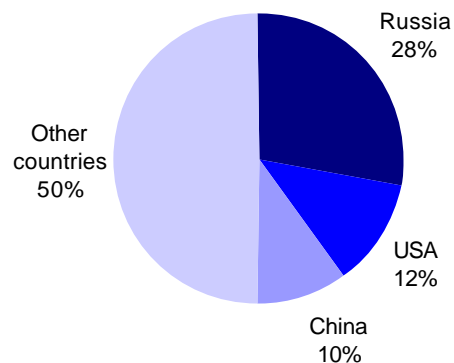
world-wide leading position in close cooperation with the German coal mines and were able to prove the practicability of these mines. Hansen Group had already relocated the major portion of its research and development activities to the Czech Republic and Poland before shutting down the German workshop and no longer sells equipment to German mine operators.

As a reaction to the growth of the energy and steel demand in the emerging markets, together with an increased awareness of safety in these countries, Hansen Group has focused itself strategically on these countries. The newest addition is China. This market is particularly interesting considering the Chinese hunger for energy and the increasing steel capacity. There are also efforts to increase mine safety in China, yet the Chinese market is not easy for foreign companies to serve due to cultural differences. Hansen Sicherheitstechnik employs in China and in the other foreign branches management/personnel from the area with contacts to the local mining sector.

Hansen Sicherheitstechnik AG generates one-third of its revenues from providing services locally. This requires local branches and represents a good opportunity to smooth the project-related receipts from the sale of safety technology. Additionally, the safety-relevant apparatus of Hansen Group is replaced roughly every three years, follow-on sales to existing customers are easier to realize when the Company is permanently at the customers' premises and, in addition to the installation, also maintains the equipment.

The following graph shows the world-wide coal reserves by country. Russia is the country with the most natural coal reserves. A little more than one-fourth of all hard coal reserves is in Russia. Hansen Group is active here in the Kuzbass region.

Graph 7: World-wide Coal Reserves by Country



Source: Deutsche Steinkohle AG, Vara Research GmbH

...China with the highest annual production

China – largest steel producer and largest coal consumer

China: Economic dependence on the raw material coal, low safety standards in mines

Based on annual coal production, China was clearly the leader in 2004 with annual production volume of 1,910 million tons, ahead of the USA with a production volume of 932.5 million tons. The country most rich in coal, Russia, was only in sixth place based on the production volume, because the Kuzbass coal region is so far from the ocean that selling on the world market is out of the question. The Russian domestic demand has been growing in the past, particularly due to trends in the steel market. Hansen Sicherheitstechnik is already active in four of the top ten of the coal-producing states: China (1), South Africa (5), Russia (6) and Poland (8), although the presence in China is currently just starting out. Hansen Sicherheitstechnik is closely monitoring other important countries such as India (3), the USA (2) and Australia (4). In June 2006, with the registration of "Hansen China Ltd." based in the centre of Peking, the entry into the Chinese market was completed.

China, with a 37% share, was world-wide the largest user of coal, the share of world-wide hard coal production was 38%. China's mines are judged to be unsafe, reports of mine accidents with numerous fatal casualties are hardly a rarity. Increasing energy prices are a major threat for the Chinese macroeconomy. According to experts, a price shock would result in a decrease of 5-10% in the gross domestic product. Therefore, coal reserves in China are of major strategic importance. This is also true because they are needed to satisfy the country's demand for steel, in addition to the growing energy demand. Increasing mine safety would, in addition to improving the mines' image, also increase the ability to plan their own production substantially—explosions in mines lead to stops in production or in severe cases to mine closures. Improving mine safety would improve productivity and provide a boost for the order books of the respective equipment makers (such as explosion-proof electrical products).

Coal's share of the energy mix is very high in China with about 70%; the EU 25 countries' share is at only 31%. The problem with Chinese mining is the high rate of accidents, which is due to the application of outdated technology and according to official data, cost 6,000 lives annually. The unofficial number may be a multiple

**Structural changes in  
Chinas mining industry  
– opportunities for  
Hansen Group**

**Purchasing can be  
processed through the  
Peking office**

**Acquisitions of Chinese  
firms planned –  
technology transfer  
should follow**

**China will already  
contribute to Group  
sales this year**

**Poland – eighth largest  
coal producer  
worldwide...**

of that. In China there are 28,000 registered coal mines, 26,000 of which are small operations, some of which use the same production methods as those used in Europe in the 19th century. Hansen Group considers only about the 50 largest Chinese mines to be prospective customers. Groups of Chinese mine operators are currently endeavouring to establish long-term partnerships with German companies from the hard coal segment, in order to improve occupational safety.

To increase occupational safety and increase efficiency, the structure of Chinese mining is currently being refashioned as well. Many of the numerous small mines, which are considered particularly unsafe, will be shut down. New, modern mines are intended to take their place. Ten of the largest companies with current production volumes of up to 150 million tons are supposed to restructure themselves and ensure the nation-wide hard coal production of over 2.5 billion tons annually in the future. Substantial investment is necessary to realize this plan. Subject matter experts believe that there will be an investment boom in the Chinese mining segment lasting over 10 to 15 years. The investment plan, efforts to increase occupational safety and the desire to use German know-how create a positive setting in China for Hansen Sicherheitstechnik AG. The competition in the segment in China is high, however.

The Chinese subsidiary was founded in mid-2006. The Chinese CEO has over twenty-five years of industry experience in the Chinese coal industry and has good local contacts. Therefore the Chinese office in Peking is partially assuming the role of purchaser for the other national companies. It is planned to provide the local management with a financial share of the company.

Hansen Group plans to invest in two to three operating investments. These would be managed via the branch in Peking. Hansen Group is still in an early phase in respect to the acquisitions in China. Initial discussions with potential target companies have already taken place; it has not yet gotten as far as a due diligence. The revenues of the acquired company have highest priority for an acquisition. The profitability of the company at the time of purchase plays a secondary role, on the other hand. Companies with low profitability can be acquired at lower prices. The goal of the acquisition in any case is to transfer the Company's own technology to the acquired company, to cease production of simple electrical products and above and beyond that, to make the companies more profitable.

According to the Company's plans, China will contribute to Hansen Group's revenues already this year. China's revenue contribution could amount to 5% of consolidated revenues; it depends, however, on the timing of the execution of the acquisition. The Chinese share of revenues would—according to the plans— increase substantially in the years until 2010 and could then reach a revenue share of about 35%, which in absolute numbers represents revenue of about € 30 million.

Poland is the eighth largest coal producer world-wide. There are a total of three main coal-producing areas in Poland. The Polish coal reserves are so far underground, that the costs of excavation are currently higher than their price on the world market. Most recently—in November 2006—a mine accident with 23 casualties in the mine known for being hazardous ("Halemba") made headlines. Even if mine safety in Poland has improved after the political change, it is still below the Western European level. The most recent accident has once again put mine safety in the public eye and provided for announcements of the will to further improve

**...and currently Hansen Sicherheitstechnik AG's most important foreign market**

**Czech Republic & CIS countries: Hansen focusing Czech production capacity on CIS countries**

**Revenue growth in Russia and the CIS countries**

**South Africa: fifth largest coal producer, Hansen with strong market position**

**Subsidiary in South Africa will show above-average growth**

**Certification for other markets not a market entry barrier for Hansen Group**

safety, which could increase the sales opportunities for Hansen Sicherheitstechnik's products.

Hansen Sicherheitstechnik AG is the hands-down market leader for explosion-proof electrical equipment for coal mines in Poland. The Company intends to defend its position as market leader—through further developments, particularly of equipment with higher voltage levels and electronically managed variable-speed drives. In average years the annual sales potential for explosion-proof electrical products for use underground is about € 40 million. The revenues generated by Hansen Group in the Polish market are around € 14.5 million in 2006. The revenue contribution in absolute numbers will amount to about € 18 million in 2010.

In the Czech Republic mining activity will continue to decline. Hansen Sicherheitstechnik's Czech subsidiary has reacted to this trend by focusing available production capacity towards the CIS and Russia, which was evidenced by growing revenues already in 2005. Only about € 3 million of the total of € 6 million revenues generated in the Czech Republic were sold within the country. Countries such as Kazakhstan (ninth largest coal producer worldwide) and Belarus are processed on a project basis.

Russia, with around 28% share of Group revenues (2006), is already Hansen Sicherheitstechnik AG's second most important market. According to Hansen Group's plans, Russia will still be the second most important market in 2010, behind China, however (instead of behind Poland up to now). The share of revenues in 2010 will be about 22% with strongly rising Group revenues. The revenue contribution in absolute numbers will amount to about € 20 million in 2010.

In South Africa, the fifth largest hard coal-producing country, Hansen Group already has a strong market position with the subsidiary "Hansen + Genwest"; it was possible to further extend this market position. The local market leader in South Africa is the Dimako company, though. Hansen + Genwest (pty.) Ltd. hopes the 29.45% investment of a local black investor ("Maruma Family Trust") will result in improved access to public contracts. The background for this optimism is "Black Economic Empowerment", a movement that is intended to strengthen the economic influence of black-owned companies. The market leader Dimako is not a "black empowerment company".

The South African subsidiary Hansen + Genwest will extend its share of Group revenues from about 6% in 2005 to 10% this year. According to plan, the revenue share should remain constant at around 10% for the years until 2010, i.e. the company will grow at the same rate as the Group. Since the Group will also grow through acquisitions, the plans indicate higher-than-average organic growth in South Africa. The estimated revenue in absolute terms is in the amount of € 9 million in 2010, after € 2.8 million in 2005.

There are no concrete plans yet to enter the other major coal markets, for example the USA, Australia or India. The certification, which often serves as a market entry barrier, would not be a problem for Hansen Sicherheitstechnik, since Hansen Group has mastered the required standards. Market entry, which can be implemented after successful certification, would be possible within one year.

## Top 6 companies with 50% market share

### The most important competitors:

#### Becker SAIT

## Competitors

There are a limited number of competitors in the market for safety technology with application in coal mines. Becker SAIT is, with estimated revenues of € 70 million, the largest company in a total market having a volume of around €500 million; the second largest company is Hansen Sicherheitstechnik. The six largest companies (Becker SAIR, Hansen, Line Power, Baldwin & Francis, Service Machine Corp. and Ampcontrol) control nearly 50% of the world market.

Hansen Sicherheitstechnik AG's European competitors are active supraregionally and are technologically at a high level, also due to the restrictions in their home markets.

The firm Becker (D), established in 1964, which acquired the French firm SAIT Mining, is Hansen Group's strongest competitor. The Becker Group has its own operations in Australia, China, Germany, France, Canada, Poland, Russia and South Africa. A large part of its production is in high-wage countries (France). With estimated annual revenues of € 70 million, Becker SAIT is the largest company in the market.

#### Bartec

Bartec (D), founded in 1975 in Bad Mergentheim (Baden-Württemberg), has a broader base than Hansen Group, based on its range of products. The company has a production facility in China (Changzi) for the "safety technology for mines" segment.

#### Baldwin & Francis

The British Baldwin & Francis Ltd. (GB) was established in 1919 and is—in addition to the business segment "mines"—also in the process industry, the oil and natural gas industry, as well as supplier for rail construction (signal equipment, etc.). About 80% of the company's revenues are via export. The company has trade relations to mine companies in China, Russia, India, Canada, South Africa and Australia in the mining segment. Baldwin & Francis Ltd.'s revenues from business with coal mines could be about € 30 million.

#### Allenwest Wallacetown

The British Allenwest Wallacetown Ltd. (GB) is a manufacturer of fireproof and explosion-proof equipment for use in the petrochemical industry and for use in coal mines. The company's history as maker of this equipment goes back to the 1920's. Allenwest Wallacetown manufactures like Baldwin & Francis in Great Britain, yet still has a cost structure that allows it to sometimes take an aggressive stance price-wise.

#### Davis Derby

Davis Derby (GB) was established back in 1779 and had delivered miner lamps to mine companies since about 1850. The company opened international branches beginning in 1890. Between 1945 and 1955 the company concentrated on electrical equipment for mines. Today the company has—in addition to the "MineWatch" segment—the segments "truckLog" and "StedFast" (production protection equipment, including equipment for mines). The largest project thus far in the history of the company is the 2005 contract for delivery of mine-wide monitoring to Yuzkuzbassugol (Russia).

### Local competitors in Russia and Eastern Europe

Competitors in Russia and Eastern Europe are the local vendors Mefta, Carboautomatyca, Aparator, Elektromotor Kuzbass and the Ukrainian Konotop; furthermore, the German companies Becker and Hansen are active here.

The largest local company of its kind in Russia/Eastern Europe region may be Carboautomatyca with estimated revenues of around € 20 million. Carboautomatyca is present as competitor in

**Grupa Apator**

the market in the switchgear, transformer and monitor systems segments.

Grupa Apator is a listed company whose business unit "Apator Mining" is in competition with Hansen Sicherheitstechnik. Grupa Apator's total revenues in 2005 were translated at around € 70 million in 2005. The Mining Division appears above all to have a strong presence in the Polish home market. Its activities are limited to switchgear and transformers, monitor systems are not in their product range.

The companies Elektromotor Kuzbass from Russia and the Ukrainian Konotop are, similar to Apator Mining, only competitors to Hansen Group in the switchgear and transformer segments.

**Numerous local competitors in Asia**

In the Asia region (particularly China and India) there are a number of smaller companies which are active in local markets in the mine safety segment. The companies referred to do not comply with the high standards of the industrial nations and are therefore mostly active only in their immediate home markets. Together they still reach an estimated revenue volume of about € 170 million, which corresponds to a world market share of nearly 35%. The largest local player in Asia is the Chinese Xuzhou Coal Mine Factory with estimated annual revenues of € 20 million.

**South Africa: Dimako local market leader**

In South Africa, where Hansen Sicherheitstechnik is represented by its subsidiary "Hansen + Genwest" (2005 annual revenues € 2.85 million), the local company Dimako is considered the market leader. Dimako generates estimated annual revenues of € 10 million and is—as well as Hansen + Genwest—active in the switchgear, transformers and monitoring systems in South Africa. Steelco, a local company as well, is present in the market as competitor only in switchgear and transformers.

**Other regions**

Hansen Group does not have its own local establishments in the remaining regions USA and Australia.

**Ampcontrol**

In Australia, Ampcontrol is the largest company in the mine safety technology segment with estimated annual sales of € 30 million. The company is active in coal mines as supplier of switchgear, transformers and monitoring systems. The other customer segments of the private company include heavy industry, refineries, the oil and natural gas industry as well as electricity producers.

**USA: LinePower and SMC**

In the USA, the local companies Line Power with annual revenues of around € 40 million and Service Machine Corp. with annual revenues of around € 30 million are active in the switchgear and transformer segments for coal mines. In the monitoring systems segment there are a number of small competitors in the North American market.

## Income Statement

(in millions of €)	2004	2005	2006e	2007e	2008e
Revenues	27.749	43.923	40.566	42.273	46.956
Change in inventories	0.596	0.356	0.329	0.342	0.380
Other own output carried as assets	0.000	0.000	0.000	0.000	0.000
Other operating income / expenses	0.628	0.847	0.782	0.815	0.905
Total output	28.973	45.126	41.677	43.431	48.241
Cost of goods sold	-13.306	-21.709	-20.043	-20.867	-23.182
Gross income	15.667	23.416	21.634	22.563	25.059
Personnel expenses	-6.249	-9.480	-8.773	-9.100	-10.087
Other expenses	-3.294	-3.999	-6.275	-4.464	-4.960
EBITDA	6.125	9.938	6.586	8.999	10.013
Depreciation/amortization	-0.396	-0.551	-0.467	-0.495	-0.566
EBIT	5.729	9.387	6.120	8.505	9.446
Net financial income/expense	-0.148	-0.189	0.142	0.273	0.437
Extraordinary income (loss) before taxes	0.000	0.000	0.000	0.000	0.000
Earnings before income taxes	5.581	9.198	6.261	8.778	9.883
Extraordinary income (loss) after taxes	0.000	0.000	0.000	0.000	0.000
Income tax	-1.242	-2.241	-1.525	-2.139	-2.408
Minority interests	-1.329	-2.189	-1.689	-1.773	-1.965
Net income	3.011	4.768	3.046	4.866	5.510
Adjustment items	0.000	0.000	1.500	0.000	0.000
Adjusted net income	3.011	4.768	4.546	4.866	5.510
Weighted number of shares	1.13	1.13	1.25	1.25	1.25
Reported EPS	2.68	4.24	2.45	3.91	4.43
Adjusted EPS	2.68	4.24	3.65	3.91	4.43
DPS	0.00	1.00	1.00	1.10	1.15

Source: Company data / Vara Research GmbH

## Cash Flow Statement

(in millions of €)	2004	2005	2006e	2007e	2008e
Cash provided by operating activities	3.623	5.494	3.693	5.743	5.947
Cash used in investing activities	-1.117	-1.296	-0.485	-0.507	-0.562
Cash provided by / used in financing activities	-1.236	0.532	-2.025	-1.245	-1.370
Change in cash	1.270	4.729	1.182	3.991	4.015
Cash, end of period	2.933	8.129	9.312	13.303	17.318

Source: Company data / Vara Research GmbH

## Balance Sheet

(in millions of €)	2004	2005	2006e	2007e	2008e
Non-current assets	7.320	8.216	8.235	8.247	8.242
Intangible assets	4.321	4.284	4.284	4.284	4.284
Property, plant and equipment	2.999	3.924	3.942	3.954	3.949
Financial assets	0.000	0.009	0.009	0.009	0.009
Current assets	14.867	25.626	27.815	32.586	38.737
Inventories	5.541	6.954	7.354	7.663	8.512
Receivables	6.393	10.544	11.150	11.619	12.907
Cash and securities	2.933	8.129	9.312	13.303	17.318
Other assets	0.365	0.598	0.598	0.598	0.598
Total assets	22.552	34.441	36.648	41.430	47.577
Shareholders' equity	14.565	21.469	24.080	28.474	33.580
Reserves	11.864	17.300	19.222	22.843	26.983
Minority shares	2.702	4.169	4.858	5.631	6.596
Provisions	0.160	0.338	0.351	0.365	0.379
Liabilities	7.826	12.634	12.218	12.592	13.619
Interest-bearing liabilities	2.417	4.221	3.321	3.321	3.321
Non-interest-bearing liabilities	5.410	8.413	8.896	9.271	10.298
Other liabilities	0.000	0.000	0.000	0.000	0.000
Total equity and liabilities	22.552	34.441	36.648	41.430	47.577

Source: Company data / Vara Research GmbH

## Key Ratios

	2004	2005	2006e	2007e	2008e
<b>Valuation Key Ratios</b>					
EV/Revenues	n.a.	n.a.	1.2	1.1	1.0
EV/EBITDA	n.a.	n.a.	5.6	5.3	4.8
EV/EBIT	n.a.	n.a.	5.9	5.6	5.1
Reported P/E	n.a.	n.a.	12.6	7.9	7.0
Adjusted P/E	n.a.	n.a.	8.5	7.9	7.0
PCPS	n.a.	n.a.	7.7	7.2	6.3
Price/book value	n.a.	n.a.	2.0	1.7	1.4
<b>Profitability Key Ratios in %</b>					
Gross margin	56.5%	53.3%	53.3%	53.4%	53.4%
EBITDA margin	22.1%	22.6%	21.2%	21.3%	21.3%
EBIT margin	20.6%	21.4%	20.0%	20.1%	20.1%
Pre-tax margin	20.1%	20.9%	20.4%	20.8%	21.0%
Net margin	10.8%	10.9%	11.2%	11.5%	11.7%
ROE	n.a.	38.6%	27.4%	25.3%	24.1%
ROCE	n.a.	61.1%	45.9%	46.6%	49.6%
<b>Productivity Key Ratios</b>					
Revenues/employee (in Euro ,000)	77.9	113.8	100.1	103.8	114.7
Net income/employee (in Euro ,000)	8.5	12.4	11.2	11.9	13.5
No. of employees	356	386	405	407	409
<b>Financial Key Ratios</b>					
Equity ratio	64.6%	62.3%	65.7%	68.7%	70.6%
Gearing	-2.9%	-17.0%	-23.7%	-34.0%	-40.8%
Payout ratio	0.0%	23.6%	27.4%	28.1%	26.0%
Dividend yield	n.a.	n.a.	3.2%	3.6%	3.7%
<b>Cash Flow Key Ratios</b>					
Cash flow per share	4.46	7.70	4.04	4.32	4.89
Free cash flow per share	3.39	6.35	3.65	3.91	4.44
<b>Other Key Ratios</b>					
Working Capital/revenues	23.5%	20.7%	23.7%	23.7%	23.7%
Depreciation/revenues	1.4%	1.3%	1.2%	1.2%	1.2%
Capex/op. cash flow	37.9%	26.0%	10.7%	10.4%	10.2%
Capex/revenues	5.2%	4.2%	1.2%	1.2%	1.2%
Tax rate	22.2%	24.4%	24.4%	24.4%	24.4%

Source: Company data / Vara Research GmbH

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Company	Date	Rating	Target price
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3. Date of initial publication of the financial analysis:  
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4. Date and time of the prices of financial instruments disclosed therein:  
(Price on 03/06/2007)

5. Updates:

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