

**Hormosan Pharma GmbH  
Frankfurt am Main, Germany**

**Long - form Audit report**

Long-form Report on the Audit of the  
Financial Statements and Management Report  
for the Financial Year  
from 1 April 2022 to 31 March 2023

**TRANSLATION**

– German version prevails –

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## Appendices

### **1 Management Report and Annual Financial Statements**

Management Report

Balance Sheet

Profit and Loss Account

Notes to the Financial Statements

**General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms)**

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We would like to point out that there may be differences due to the use of rounded amounts and percentages because of commercial rounding.

## **1 Audit Engagement**

By resolution of the shareholder's meeting of 1 September 2022 of

**Hormosan Pharma GmbH,  
Frankfurt am Main, Germany**

– hereinafter referred to as “Hormosan” or “Company” –

we were elected as independent auditors for the financial year from 1 April 2022 to 31 March 2023. Based on this resolution, the Company's executive directors then engaged us to audit the financial statements for the 2022/2023 financial year in accordance with Section 317 of the German Commercial Code [HGB].

In accordance with Section 321 Paragraph 4a of the German Commercial Code [HGB] we confirm that our audit was conducted in compliance with the applicable regulations on independence.

Our long-form audit report was prepared in accordance with German Generally Accepted Standards for the Preparation of Long-form Audit Reports (promulgated by the Institute of Public Auditors in Germany (IDW) – Auditing Standard IDW PS 450 revised (10.2021)).

The scope of the engagement and our responsibilities thereunder, also towards third parties, are governed by our agreements dated 27/28 July 2022 and additionally by the attached “General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (German Public Auditors and German Public Audit Firms)” as of 1 January 2017.

This long-form audit report has been prepared solely for documenting the audit work performed to the Company and not for third party purposes, to whom we do not accept liability in accordance with the legal position pursuant to Section 323 of the German Commercial Code [HGB].

## **2 Fundamental Findings**

### **Opinion on the executive directors' assessment of the position of the Company**

We draw attention to the following aspects of the financial statements, the management report of the executive directors, as well as other audited documents which are of particular relevance in assessing of the economic position of the Company:

- Sales revenues of Hormosan have increased to mEUR 44.5 (prior year: mEUR 36.6).

Sales revenues from the sale of medicinal products grew by 19.1 % (mEUR 7.7), as sales increases were achieved in the product area of painkillers and sales activities in general were strengthened, as well as benefiting from

delivery problems of individual competitors. Income from the provision of services to affiliated companies amounting to mEUR 4.4 was achieved (prior year: mEUR 4.1).

- The net profit for the year amounted to mEUR 5.7 (prior year: mEUR 2.2).

The cost of materials increased from mEUR 21.0 in the previous year to mEUR 22.4, whereby the cost of materials ratio (cost of materials in relation to sales revenues) of 50.3 % is significantly below the previous year's value of 57.5 %. The decline is due to a change in the product mix. Despite a slight reduction in the number of employees from 74 to 69, personnel expenses remained unchanged at mEUR 6.9. Other operating expenses rose from mEUR 6.0 to mEUR 7.7 and include as the largest item expenses for scientific information and advertising of mEUR 2.8 ( prior year: mEUR 2.5). Due to the improved result, income tax expenses rose from mEUR 0.1 in the previous year to mEUR 1.8.

- Total assets increased to mEUR 43.5 (prior year mEUR 35.2).

Inventories rose by mEUR 1.9 to mEUR 10.8 due to increased stocks of high-turnover goods. Trade receivables, at mEUR 7.6, are slightly above the previous year's amount of mEUR 7.3. Liquid funds amounted to mEUR 21.1 as at the balance sheet date (prior year: mEUR 14.2), which is also due to the delayed collection of rebates credits by the health insurance companies.

Equity amounts to mEUR 23.6 (prior year: mEUR 17.9). The equity ratio amounts to 54.3 % (prior year:50.8 %).

Other provisions and accruals amount to mEUR 14.9 (prior year: mEUR 14.5) of which mEUR 10.1 (prior year: mEUR 9.9) relates to rebates to health insurance companies and reimbursements account for mEUR 0.8 (prior year: mEUR 1.7). The increase in rebate provisions is due to the fact that the billing speed of health insurance companies has slowed down and unpaid rebate credits are therefore accumulating. Trade payables amount to mEUR 2.8 and are mEUR 0.9 above the previous year's figure.

- Opportunities and risks for future development

Risks are seen in the regulatory environment as governments and health insurers decide on the level of manufacturer rebates, the expansion of generic product tenders and the restriction of the reimbursement of products and the formation of fixed price groups. Furthermore, the Company is exposed to the risk of supply bottlenecks for certain preparations, as changes of suppliers of pharmaceutical products are not possible at short notice. Opportunities are seen in the further expansion of the business.

- Positive outlook for 2023/2024

For the coming financial year, a slight increase in revenue compared to 2022/23 and a net profit after tax slightly below the level of 2022/23 are planned.

In conclusion, we state in accordance with Section 321 Paragraph 1 Sentence 2 of the German Commercial Code [HGB] that we deem the assessment of the position of the Company by the executive directors, notably the going concern assumption and the assessment concerning the future development of the Company as expressed in the financial statements and in the management report, to be realistic.

In addition, we would like to refer to the comments on the overall assertions on the Annual Financial Statements of the Company in section 5.2 of our report.

### **3 Copy of the Independent Auditor's Report**

We issued the following unqualified independent auditor's report on the financial statements and management report of Hormosan Pharma GmbH, Frankfurt am Main, Germany, for the 2022/2023 financial year as set out in Appendix 1:

#### **"INDEPENDENT AUDITOR'S REPORT**

To Hormosan Pharma GmbH, Frankfurt am Main, Germany

#### **Audit opinions**

We have audited the annual financial statements of Hormosan Pharma GmbH, Frankfurt am Main, Germany, comprising the balance sheet as at 31 March 2023, the profit and loss account for the financial year from 1 April 2022 to 31 March 2023 and also the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Hormosan Pharma GmbH, Frankfurt am Main, Germany for the financial year from 1 April 2022 to 31 March 2023.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 March 2023 and of its financial performance for the financial year from 1 April 2022 to 31 March 2023 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 Paragraph 3 Sentence 1 of the German Commercial Code [HGB], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

**Basis for the audit opinions**

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 of the German Commercial Code [HGB] and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the annual financial statements and of the management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

**Responsibilities of the executive directors for the annual financial statements and the management report**

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error (i.e. manipulation of the accounting system or misstatement of assets).

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company’s position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

**Auditor’s responsibilities for the audit of the annual financial statements and of the management report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code [HGB] and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraudulent acts or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in accordance with German Legally Required Accounting Principles.
- evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.



- perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence, we evaluate in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Frankfurt am Main, Germany, 28 April 2023

**Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

sign. Thomas Ludwig  
Wirtschaftsprüfer  
[Certified Public Auditor]

sign. Rainer Wiesner  
Wirtschaftsprüfer  
[Certified Public Auditor]”

## **4 Subject, Nature and Scope of the Audit**

### **Subject of the Audit**

#### **Subject of our audit was**

- The accounting records
- the annual financial statements (comprising balance sheet, profit and loss account as well as notes to the financial statements) and
- the management report

of the Company.

The Company’s executive directors are responsible for the accounting records and the preparation of the annual financial statements and management report in accordance with German commercial law; this also applies to

the information which was provided to us concerning these documents. Further information is provided in the section “Responsibilities of the executive directors for the annual financial statements and the management report” in the above copy of our auditor’s report.

Our responsibility is to express an opinion on these documents and this information based on our audit conducted in accordance with professional auditing standards. Our responsibilities in this context are described in the sections entitled “Audit opinions” and “Auditor’s responsibility for the audit of the annual financial statements and the management report” of our auditor’s report.

### **Nature and Scope of the Audit**

Starting point for our audit was the prior year’s financial statements audited by us and given an unqualified auditor’s opinion dated 29 April 2022; these financial statements were approved on 1 September 2022.

We conducted our audit in accordance with Section 317 of the German Commercial Code [HGB] and with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany [IDW].

Please refer to the statements in the section entitled “Auditor’s responsibilities for the audit of the annual financial statements and the management report” in the above copy of our auditor’s report in section 3. To meet these requirements, we apply our risk- and process-oriented audit approach; To implement it, we use our audit software LEVVIA. It supports the planning, execution and documentation of the audit.

In accordance with Section 317 Paragraph 4a of the German Commercial Code [HGB], the scope of the audit does not include assurance on the future viability of the audited Company or on the effectiveness or efficiency with which the executive directors have conducted or will conduct the affairs of the Company.

We performed the audit in the months of December 2022 (interim audit) and March and April 2023 (main audit).

In accordance with our audit plan, we did not rely on internal controls. Therefore, in accordance with our risk assessment, we did not reduce the scope of our substantive analytical procedures and tests of details of selected transactions and account balances. Tests of details were performed on the basis of judgmental selections of specific items and/or by applying sampling methods.

The following areas were the focus of our audit:

- Evidence of and cut-off of sales revenues,
- Valuation of inventories,
- Valuation of trade receivables, and
- Completeness and valuation of provisions and accruals.

In order to assess the appropriateness of the Company's accounting records, as part of the interim audit, we obtained an overview of the organisation of the accounting records and an understanding of the controls relevant to the audit, and performed appropriate tests of design and implementation, in particular with regard to the relevant internal controls implemented.

The Company records its inventories by way of inventory counts carried out prior to the year-end. We participated in selected physical inventory counts in an observational capacity. Furthermore, we examined whether the inventory accounting meets the requirements of the respective inventory method.

Within the framework of our audit of trade receivables and payables, we requested external confirmations from selected customers and suppliers, selected lawyers and the tax advisor of the Company concerning its debits, claims, rights, credits and obligations. We did not request external confirmations of affiliated accounts receivable and accounts payable recorded in lists of account balances at the balance sheet date. In this context, we convinced ourselves that accounts receivable and accounts payable were recorded, maintained and processed in such a way that they could be substantiated reliably by other means.

Considering the disclosures in the annual financial statements, we evaluated the prospective information in the management report for plausibility and consistency with our audit evidence in respect of the annual financial statements.

The executive directors provided all information and evidence requested and on 28 April 2023 issued a written letter of representation in accordance with professional standards. In this letter of representation, the executive directors notably confirm that all transactions which require recognition in the accounting records are recorded in the books presented and that in compliance with the applicable accounting principles the annual financial statements reflect all assets, liabilities (obligations, risks etc.), accruals and special items, all expenses and income as well as all required disclosures.

## **5 Findings and explanations on the financial reporting**

### **5.1 Appropriateness of the financial reporting**

#### **5.1.1 Accounting records and other audited documents**

The accounting records comply with the legal requirements including the German principles of proper accounting. The information derived from the other audited documents is, in all material respects, appropriately presented within the accounting records, the annual financial statements and the management report.

### **5.1.2 Annual financial statements**

The financial statements for the 2022/2023 financial year are attached as part of Appendix 1 to this long form audit report.

The annual financial statements have been properly derived from the accounting records and the other audited documents. The legal requirements on classification, recognition and valuation and on the notes to the financial statements have been complied with in all material respects. The disclosures on the total remuneration of the executive directors have been omitted, as permitted by Section 286 Paragraph 4 of the German Commercial Code [HGB].

### **5.1.3 Management Report**

The management report for the 2022/23 financial year is attached as part of Appendix 1 to this long form audit report.

According to the result of our audit, the management report complies, in all material respects, with German legal requirements.

## **5.2 Overall presentation of the annual financial statements**

### **5.2.1 Conclusions on the presentation of the annual financial statements**

We refer to our explanations on the overall presentation of the annual financial statements given below. The annual financial statements taken as a whole, i.e. the combined presentation of balance sheet, profit and loss account and notes to the financial statements, give a true and fair view of the Company's assets, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

### **5.2.2 Explanations concerning the overall presentation of the annual financial statements**

Significant valuation bases are presented below.

#### **Provisions for rebates to health insurance companies**

Pharmaceutical companies sell their drugs to pharmaceutical wholesalers and pharmacies at the list price, with the appropriate revenue recognition. In so-called rebate agreements, the statutory health insurance companies can arrange special rates with one or more suppliers for an active ingredient. The pharmacies are then allowed to dispense only those products that are specified in the rebate agreement of the respective health insurance company to the insured person. Drug companies are selected through public tenders for individual drugs that received the supplements for their products either exclusively or in a multi partner model for a term of two years.

Through these contracts, the drug manufacturer grants the health insurance companies rebates in return for being the exclusive supplier to the health insurance companies. At the pharmacy, the patient with an appropriate prescription from the doctor does not receive the drug of the manufacturer who is named on the prescription,

but a drug from one of the manufacturers who have a discount agreement with the health insurance company of the patient. The drug needs to have the same active ingredients, the same pharmaceutical form, dosages and package size. The pharmacies are obliged by the no substitution (“Aut-idem”) rule to make a substitution of prescribed medication in favour of the rebated medicines. This shall only not apply if the physician has prohibited the exchange by ticking the “aut idem field” on the prescription.

The rebates are due at the time of delivery of the drug by the pharmacy to the patient. As at the time of sale of the drug by Hormosan to wholesalers or pharmacy neither the timing nor the quantity of the dispensed items is known, the amount of incurred rebates for sales of the business year can only be estimated at the balance sheet date. The estimate is based on the rebate amounts agreed with the health insurance companies, sales and volume reports of INSIGHT Health GmbH & Co. KG, Waldems, Germany, (healthcare information providers) and the realised revenues and rebate credit notes in the business year. The discounts are often invoiced by the health insurance companies several months after the release of data by the information provider.

Hormosan has set up provisions amounting to mEUR 10.1 as at 31 March 2023 for rebates payable to health insurance companies (prior year: mEUR 9.9).

### 5.3 Information on the assets, liabilities, financial position and financial performance

#### Multi-year data overview

		2022/23	2021/22	2020/21	2019/20	2018/19
Sales revenues	EUR '000	44,549	36,594	33,650	40,277	32,247
Material costs	EUR '000	22,430	21,048	16,968	20,358	17,062
Material costs in relation to sales revenues	%	50.3	57.5	50.4	50.5	52.9
Personnel expenses	EUR '000	6,915	6,886	6,487	7,002	6,596
Employee numbers (§ 267 para. 5 HGB)	No.	69	74	79	73	70
Sales revenue per employee	EUR '000	646	495	426	552	461
EBITDA	EUR '000	8,020	3,146	4,645	6,517	2,865
EBIT	EUR '000	7,516	2,279	3,888	5,937	2,312
Net profit for the year	EUR '000	5,705	2,175	3,515	5,302	2,115
Intangible fixed assets	EUR '000	1,683	2,015	2,711	3,094	3,039
Equity	EUR '000	23,605	17,901	15,725	12,211	6,909
Equity ratio	%	54.3	50.8	49.9	41.0	31.5
Balance sheet total/Total assets	EUR '000	43,478	35,229	31,542	29,816	21,956

#### Credit lines

The Company does not have its own credit lines with banks.

**6 Concluding Remark**

The above long-form audit report on our audit of the annual financial statements and of the management report of Hormosan Pharma GmbH, Frankfurt am Main, Germany, for the financial year from 1 April 2022 to 31 March 2023 complies with the legal requirements and the German Generally Accepted Standards for the Preparation of Long-form Audit Reports for the Audits of Financial Statements promulgated by the Institut der Wirtschaftsprüfer (IDW) – Auditing Standard IDW AuS 450 Revised (10.2021).

Concerning the Unqualified Independent Auditor’s report issued by us we refer to Section 3 “Copy of the Independent Auditor’s Report”.

Frankfurt am Main, Germany, 28 April 2023

**Deloitte GmbH**  
Wirtschaftsprüfungsgesellschaft

[signed]  
(Thomas Ludwig)  
Wirtschaftsprüfer  
[Certified Public Auditor]

[signed]  
(Rainer Wiesner)  
Wirtschaftsprüfer  
[Certified Public Auditor]

For publication or issuing to third parties of the annual financial statements and/or the management report in a form other than the version on which our independent auditors’ report has been issued, or for translation into other languages our renewed representation is required, if our independent auditors’ report is quoted or reference is made to our audit of the annual financial statements in this context; in this respect we draw attention to the regulations under Sec. 328 of the German Commercial Code *(HGB)*.

**Hormosan Pharma GmbH**  
**Frankfurt am Main, Germany**

**Appendix 1**

Management Report and Annual Financial Statements for  
the financial year  
from 1 April 2022 to 31 March 2023

## **Hormosan Pharma GmbH, Frankfurt am Main, Germany**

### **Management Report for the financial year from 1 April 2022 to 31 March 2023**

#### **1. Fundamentals of the Company**

Hormosan Pharma GmbH concentrates on the sale of prescription drugs to pharmaceutical wholesalers. With branded generics and speciality medicines, it focuses on the indication areas of severe headaches (especially so-called cluster headaches and severe migraines), pain therapy, sexual health (HIV, Women's Health, Men's Health) and rare diseases in the field of neurology. In addition, generic products are mainly sold for the indication area of the central nervous system.

The current product range comprises 58 products, 51 of which are generic products, some of which are sourced from the parent company, but most of which are sourced from third parties. Hormosan Pharma GmbH does not develop its own products. The product portfolio is based, on the one hand, on licences acquired from third parties as licensors in return for payment and, on the other hand, on products developed by Group companies. Finished product developments that have been submitted for registration or the approvals that have already been granted are taken over.

Hormosan Pharma GmbH has been active as a pharmaceutical company on the German market since 1968. Since mid-2008, following its takeover by the Lupin Group, it has been operating as the German subsidiary of Nanomi B.V., with its head office in Oldenzaal (Netherlands). Nanomi B.V. is in turn a subsidiary of Lupin Ltd. with its head office in Mumbai (India). The Lupin Group is an internationally operating pharmaceutical group of companies with a broad range of generics as well as patented pharmaceutical forms and substances. The group companies are particularly specialised in the areas of cardiovascular, diabetes, asthma, paediatrics, neurology, gastroenterology, oncology, infections and pain.

#### **2. Economic framework**

Both sales revenues (5.4%) in the German pharmaceutical market according to the IQVIA Market Report 2022 and sales volumes (2.3%) increased compared to the previous year's level. In the Pharmacies segment, sales revenues increased by 5.5% to EUR 46.6 billion. The Covid 19 pandemic was only a peripheral issue in the 2023 calendar year. According to the IQVIA Market Report 2022, sales revenues with statutory health insurers increased by 5.3% to EUR 50 billion in 2022 and sales volumes by 4.5%.

#### **3. Earnings position**

The sales revenues of Hormosan Pharma GmbH amounted to EUR 44.5 million in the past financial year compared to EUR 36.6 million in the previous year. Sales revenues from the sale of medicinal products increased from EUR 32.5 million to EUR 40.1 million. This was mainly due to higher sales in the painkiller product range, intensified marketing and sales activities as well as strong growth due to (temporary) non-delivery capabilities of competitors and the associated additional sales. Sales of services also increased slightly from EUR 4.1 million in the previous year to EUR 4.4 million. Sales revenues is a significant financial performance indicator that is used to manage the Company.



The cost of materials rose from EUR 21.0 million to EUR 22.4 million in the past financial year. While the cost of purchased goods was EUR 1.4 million higher than in the previous year due to the increase in sales revenues, the cost of purchased services remained virtually the same. The latter relates to marketing and sales expenses and are connected to the sales revenues with affiliated companies from services rendered.

The ratio of cost of sales to sales revenues amounted to 50.3% which is below the previous year's level (2021/22: 57.5%), but is back at the level of 2020/21 (50.4%). The main reason for this is an optimised product mix. Gross profit (gross profit = sales revenues less cost of materials) amounted to EUR 22.1 million (prior year: EUR 15.5 million).

In the 2022/23 financial year, the Company's personnel expenses remained at the previous year's level of EUR 6.9 million. In the past financial year, an average of 69 persons were employed (prior year: 74 persons).

Depreciation and amortisation of fixed assets amounted to EUR 0.5 million, compared to EUR 0.9 million in the previous year, and in 2021/2022 included EUR 0.3 million (2022/2023: EUR 0.0 million) in unscheduled amortisation of intangible assets.

Other operating expenses in the past financial year were higher than in the previous year at EUR 7.7 million. The main items were the costs of scientific information and advertising amounting to EUR 2.8 million (prior year: EUR 2.5 million), distribution services amounting to EUR 0.9 million (prior year: EUR 0.8 million) and expenses for temporary staff amounting to EUR 0.8 million (prior year: EUR 0.2 million).

Earnings before income taxes amounted to EUR 7.5 million (prior year: EUR 2.3 million). Income tax expenses increased to EUR 1.8 million in the past financial year (prior year: EUR 0.1 million).

Overall, a net profit of EUR 5.7 million (prior year: EUR 2.2 million) was achieved.

#### **4 Assets Position**

Total assets of Hormosan Pharma GmbH as at 31 March 2023 increased over the previous year from EUR 35.2 million to EUR 43.5 million.

Intangible assets decreased by EUR 0.3 million compared to the previous year to EUR 1.7 million, which is mainly due to amortisation. Tangible fixed assets remained at the previous year's level with a net book value of EUR 0.1 million.

In this financial year, a loan of EUR 0.5 million was granted to an affiliated company, which is of a long-term nature and is therefore reported under financial assets.

Inventories increased by EUR 1.9 million to EUR 10.8 million. Compared to the previous year, this is mainly due to the higher average inventory for high-turnover products.

Trade receivables increased slightly from EUR 7.3 million to EUR 7.6 million. Receivables from affiliated companies decreased from EUR 2.1 million to EUR 0.9 million and included a loan of EUR 1.0 million in the previous year.

Equity amounted to EUR 23.6 million as at 31 March 2023 (prior year: EUR 17.9 million). The equity ratio amounts to 54.3% (prior year: 50.8%).

Other provisions and accruals increased slightly from EUR 14.5 million to EUR 14.9 million. Provisions for rebates to health insurance companies amount to EUR 10.1 million (prior year: EUR 9.9 million) and customer refunds to EUR 0.8 million (prior year: EUR 1.7 million).

Trade payables increased from EUR 1.9 million in the previous year to EUR 2.8 million due to health insurance settlements. Liabilities to affiliated companies amount to EUR 0.2 million (prior year: EUR 0.6 million) and result primarily from deliveries of goods and year-end settlements.

## **5 Financial position**

Liquid funds at the balance sheet date amounted to EUR 21.1 million (prior year: EUR 14.2 million), which is mainly due to the positive business development and the fact that the accrued rebate settlements due to the health insurance companies have not yet been paid.

In the 2022/23 financial year, Hormosan Pharma GmbH invested a total of EUR 0.3 million (prior year: EUR 0.1 million) in intangible assets. This investment mainly related to drug approvals. The fixed assets of the Company are financed to 100% by shareholder's equity.

## **6 Opportunities and risks report**

Risks pertain to future developments or events that could lead to a negative deviation from Hormosan Pharma GmbH's projected business objectives. Risk management is seen by Hormosan Pharma GmbH as a permanent task with the aim to enable the management to identify, evaluate and control risks.

### **Regulatory Risks**

The German pharmaceutical market is exposed to interventions by the respective governments and health insurance companies – mostly with the aim of reducing expenditure. This manifests itself concretely at the level of manufacturer rebates, the extension of the tender activities for generic products, and by restricting the eligibility of products and the formation of fixed price groups. Over 61% of the generic drugs sold are discounted for health insurances and the profit margins are therefore considerably limited. These facts will continue to persist overall and affect the pricing and indirectly also sales volumes and thus further limiting market opportunities, in some cases considerably.

In addition to the regulatory impact, medical research and development as well as the new daily findings on active substances and products may also affect the saleability of products. Thus, there is always some risk that at any time that the current product portfolio will have to be supplemented or substituted. In addition, there are also risks in the development of products that can delay the start of marketing. This applies in particular to companies such as Hormosan Pharma GmbH, which rely heavily on new products for sales growth.

### **Compliance Risks**

It is the declared objective of Hormosan Pharma GmbH to conduct all business processes exclusively within the framework of the respective laws and regulations as well as internal guidelines. As a result, the Company has set up a compliance system which is based on the applicable laws and monitors compliance with them. The system is continuously optimised to meet current requirements. The employees are informed about the compliance guidelines during training sessions. Management is convinced that the compliance system is sufficient to ensure that national and international rules are observed and complied with. However, training and compliance policies cannot fully ensure that employees do not inadvertently, negligently or intentionally violate laws, regulations, or internal policies.

Such violations could disrupt internal business processes and therefore adversely affect the Company as a whole, in particular its net assets, financial position and results of operations.

### **Procurement Risks**

Hormosan Pharma GmbH may be exposed to the risk of supply bottlenecks for certain preparations. This is attributable to the fact that a change of supplier of pharmaceutical products is not possible in the short term. The further optimisation of the inventory system and a reduction in the dependency on individual suppliers will continue to systematically counteract this risk. Changes in the procurement prices of important medicinal products can also have a significant effect on the earnings position of Hormosan Pharma GmbH.

### **Financial Risks and from financial instruments**

The Management sees no indications that payment obligations cannot be settled on time. The objective of liquidity management is to ensure that the Company is solvent and financially flexible at all times by ensuring a sufficient level of liquidity reserves.

There are default risks related to receivables arising from deliveries. The accounts receivable balances and the age structure of these receivables are analysed on a monthly basis in order to be able to initiate the necessary collection measures. The credit risk from loans and receivables from affiliated companies is classified as low by the management. Hormosan Pharma GmbH is not exposed to any significant currency risk, as all relevant business transactions are conducted in euros.

### **Personnel Risks**

Due to the qualified staff in particular, no personnel bottlenecks or risks are to be expected. In order to counteract the effects of the generally worsening trend in Germany of a shortage of qualified employees, Hormosan Pharma GmbH is continuously working on improving its attractiveness as an employer. In order to meet the demand for qualified specialists in a timely manner and to maintain financial flexibility, expertise from temporary employment agencies is used in addition to internal employees.

### **Macro-economic risks**

The current global political situation with high inflation - by European standards - and armed conflicts may have a negative impact on the Company. On the one hand, inflation will further increase cost pressure, and on the other hand, the supply chains are under great strain. This can lead to negative consequences for Hormosan Pharma GmbH.

### **Opportunities**

A continuous opportunity management process exists within Hormosan Pharma GmbH to secure sustainable business success. The basis for the use of available growth opportunities and thus for ensuring sustainable success are the strategic success factors of the Company. Comprehensive product planning and licensor analysis are classed as significant strategic success factors. The strategic decisions are integrated into the strategic policy of the Group and co-ordinated with it.

Increasing sales revenues requires a target-oriented use of the available resources in the sales force as well as marketing activities. To this end, Hormosan Pharma GmbH continuously trains its field staff - both for personal contact with doctors on site in the practice and via digital media. The experience of the last few years has shown that a well-dosed interaction of the different channels is decisive for future success.

## 7 Outlook

In the coming financial years, the focus of Hormosan Pharma GmbH will continue to be on expanding the business with both branded generics and specialties. In particular, the Company is committed to driving growth in the core indication areas of headaches, rare diseases in neurology and sexual health. Sales revenues from health insurance tenders continue to be an effective means of placing products across the board in the distribution channels - especially in pharmacies as the final “point of sale”.

The management is planning a slight increase for the 2023/2024 financial year in sales revenues from the sale of medicinal products, while revenue from affiliated companies will remain at the previous year's level. A significant part of the planned growth is to come from new products. In addition to consistent further development and implementation of the strategic focus, the general market development will be decisive for achieving this planning. We expect an annual result after taxes slightly below the level of 2022/23.

Frankfurt am Main, Germany, 28 April 2023

The Management Board

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(Anjan Selz)

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(Sunil Makharia)

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(Thierry Volle)

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(Dr. Sofia Mumtaz)

Hormosan Pharma GmbH, Frankfurt am Main, Germany

Balance Sheet as at 31 March 2023

ASSETS			SHAREHOLDER'S EQUITY AND LIABILITIES		
	31.03.2023 EUR	Prior year EUR		31.03.2023 EUR	Prior year EUR
<b>A. FIXED ASSETS</b>			<b>A. EQUITY</b>		
<b>I. Intangible assets</b>			<b>I. Subscribed capital</b>	122,900.00	122,900.00
1. Licenses for industrial property rights acquired for a consideration	1,457,602.60	1,880,615.31	<b>II. Capital reserves</b>	15,166,810.22	15,166,810.22
2. Payments on account	225,293.27	134,671.00	<b>III. Revenue reserves</b>	1,463,834.95	1,463,834.95
	<u>1,682,895.87</u>	<u>2,015,286.31</u>	<b>IV. Accumulated profit brought forward (prior year: losses)</b>	1,147,002.96	-1,028,179.23
<b>II. Tangible assets</b>			<b>V. Net profit for the year</b>	5,704,810.15	2,175,182.19
1. Fixtures, fittings and office equipment	69,710.30	85,734.30		<u>23,605,358.28</u>	<u>17,900,548.13</u>
<b>III. Long term financial assets</b>			<b>B. PROVISIONS AND ACCRUALS</b>		
Loans to affiliated companies	500,000.00	0.00	1. Tax provisions	1,471,657.11	0.00
			2. Other provisions and accruals	14,856,207.45	14,473,986.10
	<u>2,252,606.17</u>	<u>2,101,020.61</u>		<u>16,327,864.56</u>	<u>14,473,986.10</u>
<b>B. CURRENT ASSETS</b>			<b>C. LIABILITIES</b>		
<b>I. Inventories</b>			1. Trade payables	2,763,709.00	1,867,936.74
1. Raw materials and consumables	29,597.06	25,240.45	2. Liabilities due to affiliated companies	201,618.47	647,040.60
2. Purchased goods held for sale	10,760,280.13	8,850,388.14	3. Other liabilities	579,499.78	339,388.98
	<u>10,789,877.19</u>	<u>8,875,628.59</u>		<u>3,544,827.25</u>	<u>2,854,366.32</u>
<b>II. Receivables and other assets</b>					
1. Trade receivables	7,606,501.61	7,322,643.01			
2. Receivables from affiliated companies	904,556.11	2,082,710.04			
3. Other assets	777,229.10	641,532.61			
	<u>9,288,286.82</u>	<u>10,046,885.66</u>			
<b>III. CASH AND BANK BALANCES</b>	21,147,279.91	14,184,068.19			
	<u>41,225,443.92</u>	<u>33,106,582.44</u>			
<b>C. PREPAYMENTS AND DEFERRED CHARGES</b>	0.00	21,297.50			
	<u>43,478,050.09</u>	<u>35,228,900.55</u>		<u>43,478,050.09</u>	<u>35,228,900.55</u>

**Hormosan Pharma GmbH, Frankfurt am Main, Germany**

**Profit and loss account for the period from 1 April 2022 to 31 March 2023**

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	<u>2022 / 2023</u> EUR	<u>2021 / 2022</u> EUR
1. Sales revenues	44,549,165.53	36,594,336.82
2. Other operating income	521,714.67	535,391.57
3. Cost of materials		
a) Cost of raw materials and supplies and purchased goods	21,917,992.23	20,533,497.14
b) Cost of purchased services	512,380.05	514,956.03
4. Personnel expenses		
a) Wages and salaries	6,100,985.08	5,849,379.96
b) Social security costs and costs for pensions and similar costs	814,173.41	1,036,793.10
5. Depreciation / amortisation on intangible and tangible fixed assets	503,504.96	866,671.47
6. Other operating expenses	7,705,507.20	6,049,302.55
7. Other interest and similar income	23,314.16	11,166.67
8. Interest and similar expenses	1,993.28	2,367.25
9. Taxes on income and earnings	<u>1,832,848.00</u>	<u>112,745.37</u>
10. Earnings after taxes	<u>5,704,810.15</u>	<u>2,175,182.19</u>
11. Net profit for the year	<u><u>5,704,810.15</u></u>	<u><u>2,175,182.19</u></u>

# Hormosan Pharma GmbH, Frankfurt am Main, Germany

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 APRIL 2022 TO 31 MARCH 2023

### 1. General Information

Hormosan Pharma GmbH is a limited liability company registered in the commercial register at the District Court of Frankfurt am Main, Germany, under the number HRB 8706, and has its registered office at Hanauer Landstraße 139-143, 60314 Frankfurt am Main, Germany. The annual financial statements as at 31 March 2023 of Hormosan Pharma GmbH have been prepared in accordance with the provisions of the German Commercial Code [*HGB*] applicable to medium-sized corporations and the supplementary regulations of the Limited Liability Companies Act [*GmbHG*], as the size criteria for large corporations are fulfilled for the first time as at 31 March 2023 and the legal consequences only arise after the size criteria have been exceeded twice. Size-related reliefs pursuant to Sec. 288 para. 2 of the German Commercial Code [*HGB*] have been utilised.

### 2. Accounting and Valuation Principles

**Intangible assets** acquired from third parties are stated at acquisition cost less scheduled straight-line amortisation. The additions of intangible assets during the reporting period are amortised pro rata according to the linear method. Licensing rights for drug approvals are amortised within 5 to 10 years according to the term of the licence. Unscheduled write-downs are made in the case of impairments in value that are expected to be permanent. If the reason no longer exists, a corresponding write-up is made.

**Tangible assets** are valued at acquisition cost less scheduled depreciation. Additions whose acquisition costs exceed EUR 250 but not EUR 800 are written off immediately in the year of acquisition. Items whose acquisition costs do not exceed EUR 250 are recognised directly as expenses. The depreciation rates are based on the expected, company-specific, economic useful life, which is 3 to 13 years for operating and office equipment.

**Financial assets** include loans that are recognised at their nominal value.

The raw materials and supplies included in **inventories** are valued at purchase cost or at the lower replacement cost. Purchased goods held for sale are valued at the lower of purchase cost or replacement cost or the expected sales prices less costs still to be incurred prior to sale. Purchase costs are determined based on moving average prices. All identifiable risks in inventories resulting from above-average storage periods, reduced usability and lower replacement costs are taken into account through appropriate write-downs.

**Receivables and other assets** have been stated at cost less specific allowances for doubtful accounts and general allowances to cover the general credit risk.

Foreign currency receivables are translated at the rate on the transaction date. Receivables with a maturity of up to one year are uniformly converted at the reporting date using the spot exchange rate. In respect to receivables with a maturity of more than one year, the conversion is performed as at the reporting date using the spot exchange rate only when this results in a lower receivable value.

**Deferred taxes** are recognised on differences between commercial and tax valuation of assets, liabilities and prepaid expenses, provided that these differences are expected to reverse again in later financial years and arise from tax burdens or tax benefits. In the measurement of deferred taxes, the combined income tax rate of 32% is taken as a basis. This includes corporation tax at 15.0% and a solidarity surcharge of 5.5% thereon and also includes trade tax at an average rate of 16.1%. After offsetting deferred tax assets and deferred tax liabilities - as in the previous year - there is a net tax asset resulting mainly from valuation differences in other provisions. Any resulting overall tax burden is recognised in the balance sheet as a deferred tax liability. In the case of an overall tax benefit, the option to capitalise is not exercised.

**Tax provisions** for corporation tax and trade tax are determined on the basis of expected taxable income and trade income.

**Other provisions and accruals** take into account all identifiable risks and contingent liabilities and are recognised in accordance with prudent commercial judgement at the necessary settlement amount, taking into account expected future price and cost increases. Provisions with a remaining term of more than one year are discounted using the average market interest rate for the past seven financial years, published by the German Federal Bank [*Deutsche Bundesbank*] corresponding to their remaining term.

**Liabilities** are stated at the settlement amount.

**Foreign currency** liabilities are translated at the rate on the transaction date. Liabilities with a maturity of up to one year are uniformly converted at the reporting date using the spot exchange rate. In respect to liabilities with a maturity of more than one year, the conversion is performed as at the reporting date using the spot exchange rate only when this results in a higher liability.

### **3. Notes to the Balance Sheet**

#### **Fixed Assets**

The development of the acquisition costs and accumulated depreciation/amortisation of the individual items is illustrated in the fixed assets development schedule, which is attached as an Annex to these Notes.

#### **Receivables and Other Assets**

Other assets amounting to kEUR 72 (previous year: kEUR 72) have a remaining term of more than one year. As in the previous year, all receivables and other assets have a remaining term of not greater than one year. Receivables from affiliated companies relate to receivables from services and in the previous year also include a short-term loan of kEUR 1,500.

#### **Other Provisions and Accruals**

Other provisions and accruals mainly include provisions for rebates to health insurance companies (kEUR 10,105; prior year: kEUR 9,873), personnel provisions (kEUR 1,334; prior year: kEUR 1,031) and provisions for customer refunds (kEUR 802; prior year: kEUR 1.671).

#### **Liabilities**

All liabilities have a residual term of up to one year, which is unchanged from the previous year. As in the previous year, the liabilities to affiliated companies result from trading transactions. Other liabilities include tax liabilities of kEUR 571 (prior year: kEUR 337).

#### **Contingent liabilities**

There are no contingent liabilities.



## **Other financial obligations**

The total amount of other financial obligations from rental and leasing contracts amounts to kEUR 709 of which kEUR 462 relates to the rental agreement for the head office premises and additionally leasing costs for vehicles. Thereof, kEUR 398 is due within one year and kEUR 311 is due between 2 to 5 years.

## **4. Notes to the Profit and Loss Account**

### **Sales Revenues**

Sales revenues amounting to kEUR 40,125 (prior year: kEUR 32,470) were mainly derived from the sale of generic drugs, income from services provided amounted to kEUR 4,427 (prior year: kEUR 4,124). The sales revenues for product sales were generated almost exclusively in Germany.

### **Other operating income**

Income from currency conversion amounts to kEUR 0 (previous year: kEUR 4).

### **Personnel Expenses**

The expenses for pensions amounted to kEUR 49 (prior year: kEUR 34).

### **Depreciation / Amortisation**

In the previous year, unscheduled write-downs were incurred resulting from a permanent impairment amount of kEUR 286 (2022/23: kEUR 0), which relates to licences of industrial property rights acquired for a consideration.

### **Other Operating Expenses**

The largest items included within other operating expenses are the cost of scientific information and advertising amounting to kEUR 2,827 (prior year: kEUR 2,465), legal and consulting fees amounting to kEUR 997 (prior year: kEUR 649) and distribution services amounting to kEUR 907 (prior year: kEUR 799). Currency translation expenses amounted to kEUR 12 (prior year: kEUR 4).

### **Net interest income**

Interest income from affiliated companies amounts to kEUR 23 (prior year: kEUR 11). Interest expenses to affiliated companies amounted to kEUR 0 (prior year: kEUR 0).

## **5. Other disclosures**

### **Management**

Mr. Anjan Selz, all departments

Mr. Sunil Makharia, President – Finance, Lupin Ltd., Mumbai (India)

Mr. Thierry Volle, President EMEA Lupin Atlantis Holdings S.A., Zug (Switzerland)

Mrs. Dr. Sofia Mumtaz, President – IPMG (Department: New Products & Licensing) Ltd., Naples, Florida (USA)

The disclosure of the total emoluments of management has been omitted in accordance with Sec. 286 para. 4 of the German Commercial Code [*HGB*] as only one person received remuneration from Hormosan Pharma GmbH.

### **Employees**

The Company employed on average 69 persons (prior year: 74).

### **Auditor's Fees**

Auditor's total fees for the business year amounted to kEUR 83 and relate to audit services.

### **Inclusion in Consolidated Financial Statements**

Hormosan Pharma GmbH is included in the consolidated financial statements of Lupin Ltd., Mumbai, India, which prepares the consolidated financial statements for the smallest and the largest consolidated group. The consolidated financial statements of Lupin Ltd. are available under [www.Lupin.com/annual-reports.php](http://www.Lupin.com/annual-reports.php).

### **Profit Allocation**

Management is proposing to carry forward the net profit for the year.

### **Significant events after the balance sheet date**

No events of particular significance occurred after the end of the financial year that were not taken into account either in the profit and loss account or in the balance sheet.

Frankfurt am Main, Germany, 28 April 2023

The Management Board

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(Anjan Selz)

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(Sunil Makharia)

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(Thierry Volle)

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(Dr. Sofia Mumtaz)

## Hormosan Pharma GmbH, Frankfurt am Main, Germany

## Development of fixed assets as at 31 March 2023

	Acquisition costs				Balance 31.03.2023 EUR	Accumulated depreciation/amortisation				Net book values	
	Balance 01.04.2022 EUR	Additions EUR	Transfers EUR	Disposals EUR		Balance 01.04.2022 EUR	Charge for the year EUR	Disposals EUR	Balance 31.03.2023 EUR	Balance 31.03.2023 EUR	Balance 31.03.2022 EUR
<b>I. Intangible assets</b>											
1. Licenses for industrial property rights acquired for a consideration	6,124,556.70	62,710.39	134,671.00	-1,011,842.81	5,310,095.28	-4,243,941.39	-456,982.89	848,431.60	-3,852,492.68	1,457,602.60	1,880,615.31
2. Payments on account	134,671.00	228,963.53	-134,671.00	0.00	228,963.53	0.00	-3,670.26	0.00	-3,670.26	225,293.27	134,671.00
	<u>6,259,227.70</u>	<u>291,673.92</u>	<u>0.00</u>	<u>-1,011,842.81</u>	<u>5,539,058.81</u>	<u>-4,243,941.39</u>	<u>-460,653.15</u>	<u>848,431.60</u>	<u>-3,856,162.94</u>	<u>1,682,895.87</u>	<u>2,015,286.31</u>
<b>II. Tangible assets</b>											
Fixtures, fittings and office equipment	625,572.26	27,154.17	0.00	-13,699.39	639,027.04	-539,837.96	-42,851.81	13,373.03	-569,316.74	69,710.30	85,734.30
<b>III. Long term financial assets</b>											
Loans to affiliated companies	0.00	500,000.00	0.00	0.00	500,000.00	0.00	0.00	0.00	0.00	500,000.00	0.00
	<u>6,884,799.96</u>	<u>818,828.09</u>	<u>0.00</u>	<u>-1,025,542.20</u>	<u>6,678,085.85</u>	<u>-4,783,779.35</u>	<u>-503,504.96</u>	<u>861,804.63</u>	<u>-4,425,479.68</u>	<u>2,252,606.17</u>	<u>2,101,020.61</u>

# General Engagement Terms

## for

### Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

#### [German Public Auditors and Public Audit Firms]

#### as of January 1, 2017

DokID:

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#### 1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

#### 2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

#### 3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

#### 4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

#### 5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

#### 6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

#### 7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translators Note: *The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

#### 8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

#### 9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

## 10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

## 11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

## 12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

## 13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

## 14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

## 15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.