

**Audit Report**

**Annual Financial Statements  
as at March 31, 2021  
and the Management Report  
for the 2020/2021 Financial Year**

Sun Pharmaceuticals Germany GmbH  
Leverkusen

- TRANSLATED VERSION OF THE GERMAN ORIGINAL -

Mazars GmbH & Co. KG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

55506/K

We have prepared this PDF file at our client's behest.

We would like to draw your attention to the fact, that our report is legally binding only as a signed original.

As only the bound report, signed by us, is the result of our work in accordance with professional standards, we assume no responsibility for the correctness and completeness of this pdf version of our report.

Insofar as this version is made available to third parties, we would like to point out that our liability - to third parties as well - is solely determined by the General Terms of Engagement reproduced in the report.

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To Sun Pharmaceuticals Germany GmbH, Leverkusen:

## A. AUDIT ENGAGEMENT

We were appointed by the shareholder of

**Sun Pharmaceuticals Germany GmbH,  
Leverkusen,**  
(hereinafter „Company“ or „Sun Germany“)

to be the auditor for the financial year ending on March 31, 2021 at the shareholder meeting on February 18, 2021.

In performing the audit engagement awarded to us by the management, we conducted our audit of the annual financial statements as at March 31, 2021 together with the accounting system and the management report from April 1, 2020 to March 31, 2021 in accordance with § 317 HGB (German Commercial Code) and the German generally accepted standards for the audit of financial statements.

In accordance with § 321 (4a) HGB, we confirm our observance of the applicable regulations governing independence during the performance of our audit.

This report was prepared in accordance with the auditing standard AuS 450 “Generally accepted standards for the issuance of long-form audit reports for the audits of financial statements” issued by the Institute of Public Auditors in Germany, Incorporated Association [Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)].

The performance of our engagement and our responsibility, also towards any third parties, are governed by the Special Engagement Terms for audits and audit-related services of Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, dated June 1, 2019 and the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (Public Audit Firms) as amended on 1 January 2017, attached as an appendix. Accordingly, our liability is limited in accordance with No. 9 of the General Engagement Terms for Wirtschaftsprüfer. Towards third parties, No. 1 (2) and No. 9 of the General Engagement Terms apply.

This document is a translation of the German audit report, which is the solely legally binding version.

## B. GENERAL FINDINGS

### Opinion on the assessment of the position of the Company by its legal representatives

Responsibility for the preparation of the management report lies with the Company's management.

#### 1. Economic position and course of business

In our opinion, the management report of the legal representatives contains the following significant assertions regarding the Company's economic position and its course of business:

- In the period under review from April 1, 2020, to March 31, 2021, the total sales of generics amount to more than € 6.36 billion (source: Insight Health NPI MAT 03 2021). This stands for a sales minus of approx. 6 % compared to the same period of the previous year, whereas the sales volume decreased by approx. 10 % (source: ibid.). The reduced sales volume is partly a consequence of the Covid-19 pandemic.
- In the period under consideration from 1 April 2020 to 31 March 2021, Sun Pharmaceuticals Germany GmbH's sales in the Scandinavian countries (Sweden, Norway, Finland and Denmark) amount to over €14 million.
- As in previous years, the growth driver for the business of Sun Pharmaceuticals Germany GmbH in Germany is the expansion of successful participation in tenders, contracts with purchasing groups and B2B business with industrial customers. In the Scandinavian business, further growth is achieved through participation in tenders in Sweden, the expansion of B2B business and contracts with the individual hospital regions.
- The gross profit margin declined to 15.6 % (previous year: 17.5 %).
- The personnel cost ratio this year is 1.2 % (previous year: 0.2 %). It is expected that this ratio will remain almost stable in the new financial year.
- After deduction of income taxes, the net profit for the year amounts to € 0.3 million.
- The financial situation of the company can be described as very stable.
- In the course of building up the inventory for the patent-protected business, the value of the inventory assets increased by € 2.6 million to € 10.4 million as of the reporting date.

## 2. Future development with its significant opportunities and risks

The future development of the Company as presented in the management report is based on assumptions entailing discretionary judgement. In this conjunction, we would especially like to point out the following main assertions:

- We continue to take a positive view of the likely development of Sun Pharmaceuticals Germany GmbH.
- Accordingly, sales-increasing effects are expected from successful participation in new tenders in 2021 and subsequent years. These include both the extension of existing contractual partnerships and the conclusion of contracts for additional substances with all major German statutory health insurance funds, health insurance umbrella organisations and purchasing associations as well as the tendering bodies and hospital regions in the Scandinavian countries. Further sales growth is secured by molecules that have already been awarded and corresponding contracts will start in the coming financial year.
- As a general rule, the tender business on which Sun Pharmaceuticals Germany GmbH has focussed its activities involves certain risks, among these contractual penalties – which in part are not negligible – in the case of inability to supply or depreciation expenses that may be produced by low-inventory turnover ratios of products with a comparatively small sales volume. The latter may increase the necessity for carrying out write-downs. To minimize these risks and ensure continuous supplies of products meeting the demand, internal processes are optimized continuously
- Due to the Covid-19 pandemic, further sales losses cannot be ruled out. The amount of the possible loss cannot be estimated yet. An acute liquidity risk or a risk to the continued existence of Sun Pharmaceuticals Germany GmbH as a going concern is currently not discernible.
- The following focusses and opportunities have been identified: extension of the product ranges by additional dosage strengths, dosage forms or packaging sizes, the addition of new products in existing and new indication areas, intensified cooperation within the corporate group, and opening-up of new business areas.

## 3. Concluding statement

On the basis of executing our professional duties in performing the audit, we consider the presentation and assessment of the Company's position as well as its future development as presented by management in the management report to be suitable and accurate in all material aspects.

## C. SUBJECT, NATURE AND SCOPE OF THE AUDIT

### I. Subject of the audit

The subject of our audit was the annual financial statements prepared in accordance with the principles of German commercial law and the management report. The Company is subject to the audit requirement under section 316 of the German Commercial Code (HGB) for the first time in the fiscal year 2020/2021.

We point out that the duty to perform proper accounting and to prepare the annual financial statements and the management report is the responsibility of the management of Sun Pharmaceuticals Germany GmbH.

Our responsibility is to issue an opinion on the annual financial statements together with the accounting records and the management report based on the audit we have performed.

An audit of compliance with other statutory provisions was part of our audit engagement only to the extent that such other provisions customarily have an effect on the annual financial statements or on the management report.

Pursuant to § 317 (4a) HGB, the audit does not have to cover whether the continued existence of Sun Pharmaceuticals Germany GmbH or the effectiveness and efficiency of the management can be assured.

### II. Nature and scope of the audit

Our audit was conducted in accordance with § 317 HGB and with the German generally accepted auditing standards required for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany, Incorporated Association [Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)].

Those standards require that we plan and perform the audit such that misstatements and violations materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance.

The audit included assessing the accounting policies, measurement methods and classification principles applied and significant estimates made by management as well as critically evaluating the overall presentation of the annual financial statements and the management report.



The starting point was the unaudited previous year's financial statements as of March 31, 2020 (not yet subject to audit in the previous year), which were included in the consolidated financial statements of Sun Pharmaceutical Industries Limited.

On the basis of the risk of material misstatements, we prepared a risk profile for disclosures in the accounting. For this purpose we conducted audit procedures for assessing risk and first obtained an understanding of the Company as well as an overview of its economic and legal environment. Based on this understanding, we analysed the objectives and strategies of the Company as well as their implementation in order to determine business risks that could lead to significant errors in accounting. Based on discussions with management, the examination of the Company's organisational documents and our professional judgement, we reviewed and assessed the design of the Company's internal control system and which measures the Company had taken to particularly ensure the propriety and reliability of the accounting in order to mitigate business risks, however without conducting a detailed system analysis.

On the basis of our risk assessment, we subsequently identified specific audit areas and developed the audit plan accordingly. In this audit plan we determined the focus of the audit and the audit objectives for each audit area as well as the nature and scope of the audit procedures. The chronological sequence of the audit and staff deployment was also planned therein.

The following audit areas were decided upon for the focus of the audit for the year under review:

- Existence and valuation of the merchandise,
- Evidence and evaluation of trade accounts receivable,
- Evidence and evaluation of accounts due from and due to affiliated companies,
- Completeness and evaluation of accruals.

Owing to the manageable size of the Company, the low complexity of organisational structures and the control systems, we primarily performed substantive procedures on underlying accounting data (analytical procedures and tests of details), in particular:

- Obtaining confirmations from financial institutions
- Obtaining confirmations from lawyers
- Obtaining confirmations from tax advisors
- Obtaining balance confirmations from customers and suppliers on a sample basis
- Observation of inventories in the consignment stores in Sweden, Denmark and Finland (via video transmission) as well as attending a physical inventory count at the main warehouse on March 31, 2021 and assuring ourselves of the propriety of the recording process on a sample basis.

We examined the opening balance sheet figures as of April 1, 2020 to determine whether they were correctly taken over from the previous year's financial statements. We satisfied ourselves of the accuracy of the opening balance sheet figures in particular as part of the quarterly reviews we carried out in the subsequent 2020/2021 financial year. In doing so, we examined, among other things, the equity with reference to the extract from the commercial register, the resolutions of the shareholders' meeting and the articles of association.

The subject of our audit procedures within the framework of auditing the management report was whether it was consistent with the annual financial statements and whether it gave a true and fair view of the position of the Company. We judged the information disclosed by taking the knowledge that we had gained in the course of the financial statement audit into consideration.

We also audited whether the opportunities and risks of future development were suitably presented in the management report.

We performed the audit particularly in April 2021.

Management provided us with all explanations and evidence we requested.

In the written letter of representation provided to us, the legal representatives of the Company assured us that the explanations and evidence were complete. Furthermore, they stated that all business transactions had been recorded and disclosed in the annual financial statements and in the management report.

## D. FINDINGS ON AND EXPLANATIONS OF THE ACCOUNTING

### I. Generally accepted accounting principles

#### 1. Accounting records and other documents audited

Our audit verified that the formal and material propriety of the accounting complied with German generally accepted accounting principles and other legal requirements.

The accounting records of the Company were maintained properly. The records were complete. Based on the findings of our audit, the accounting records and other documents audited complied with legal regulations. The information extracted from other documents audited was in all material aspects properly reflected in the accounting records, in the annual financial statements and in the management report.

The organisation of the accounting, the accounting-related internal control system, data flows and recordkeeping were fundamentally appropriate for ensuring the completeness, the accuracy, the timely and orderly recording and booking of business transactions.

#### 2. Annual financial statements

The annual financial statements we have audited for the financial year from April 1, 2020 to March 31, 2021 have been properly derived from the accounting records and the underlying documents of the Company. The balance sheet and the income statement were prepared in accordance with German commercial law and regulations governing the accounting for corporations including the principles of proper accounting.

The opening balances were properly taken over from the prior year annual financial statements. Statutory regulations on recognition, disclosure and measurement were observed.

The notes to the 2020/2021 financial statements included the explanations of the balance sheet and the income statement required as well as all other information required.

#### 3. Management report

The management report we audited for the financial year from April 1, 2020 to March 31, 2021 complies with legal regulations in all material aspects.

## II. Overall presentation of the annual financial statements

### 1. Explanations of the overall presentation

The disclosures made concerning the accounting policies applied and measurement methods used were included in the Company's notes (Appendix 3).

The exercise of accounting policy and measurement options as well as discretionary judgement for the following items in the annual financial statements have had a significant influence on the net assets, financial position and results of operations:

The other provisions are recognized for all risks and contingent liabilities identified up to the date of preparation of the annual financial statements in an amount based on prudent business practice. They mainly consist of the provision of k€ 5,340 (2019/2020: k€ 6,527) for health insurance fund discounts. This provision covers the discounts that are likely to be granted to discount contract partners in the future. As some of the discount contract partners only settle with the Company once a year, the discounts that are expected to be granted had to be estimated as at March 31, 2021. The amount of the provisions set up so far is estimated for the main part on the basis of external market data obtained for the relevant quantities of the products included in the discount agreements. If and when such market data are not yet available or special effects have to be taken into account, the estimate of the quantities sold is effected on the basis of the quantities sold to the pharmaceutical wholesalers.

### 2. Findings on the overall presentation of the annual financial statements

On the basis of the audit we performed by executing our professional duties, we are of the opinion that the annual financial statements as a whole give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with generally accepted accounting principles.

### **3. Economic matters**

The Company sells pharmaceutical products, predominantly in Germany and in Scandinavia.

The Company is part of the Sun Pharmaceutical Industries group, which is the largest pharmaceutical manufacturer in India and is one of the five largest generic drug manufacturers worldwide. All medicinal products sold by the company must comply with the approval and quality regulations of the German and European regulatory authorities.

The main emphasis of business activities is the purchase and sale of generic drugs which are obtained from affiliated companies mainly from India.

In the German market, the Company participates in invitations to tender issued by statutory health insurance funds.

The company operates its business in premises rented from the sister company in Leverkusen. It uses a logistics company for storage of its goods and for shipping in Germany and a logistics company each in Sweden, Denmark and Finland.

## E. REPRODUCTION OF THE AUDITOR'S REPORT

**[Note: This is a convenience translation of the German original. Solely the original text in the German language is authoritative.]**

We issued the following unqualified auditor's report:

### **"Independent Auditor's Report**

To the Sun Pharmaceuticals Germany GmbH, Leverkusen

### **Audit Opinions**

We have audited the annual financial statements of Sun Pharmaceuticals Germany GmbH, Leverkusen, which comprise the balance sheet as at March 31, 2021, and the statement of profit and loss for the financial year from April 1, 2020 to March 31, 2021, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Sun Pharmaceuticals Germany GmbH, Leverkusen, for the financial year from April 1, 2020 to March 31, 2021.

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 March 31, 2021 and of its financial performance for the financial year from April 1, 2020 to March 31, 2021 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 § 322 Abs. 3 Satz [sentence] 1 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 § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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.

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 § 317 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 fraud or error 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 skepticism 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 (systems) 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 compliance 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.”

## F. FINAL REMARKS

Publication or reproduction of the annual financial statements and the management report of Sun Pharmaceuticals Germany GmbH, Leverkusen, for the financial year from April 1, 2020 to March 31, 2021 in a form different from the certified form, which is attached as an Appendix to this report, again requires our consent if our auditor's report is quoted or if reference is made to our audit. We herein refer to § 328 HGB.

Cologne, May 17, 2021

Mazars GmbH & Co. KG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Martin Schulz-Danso  
Wirtschaftsprüfer  
(German Public Auditor)

Marcus Koerner  
Wirtschaftsprüfer  
(German Public Auditor)

## APPENDICES

## Sun Pharmaceuticals Gemany GmbH, Leverkusen

## Balance sheet as of March 31, 2021

## Assets

	Status on 31/03/2021	Status on 31/03/2020
€	€	€
<b>A. Fixed Assets</b>		
<b>Tangible fixed assets</b>		
Other assets, plant, machinery and office equipment	15,965.21	36,868.99
<b>B. Current Assets</b>		
<b>I. Inventories</b>		
Finished goods	10,354,700.81	7,743,157.48
<b>II. Accounts receivable and other assets</b>		
1. Trade accounts receivable	6,026,702.56	7,847,631.82
2. Accounts due from affiliated companies	104,451.20	21,776.86
3. Other current assets	32,626.47	123,761.90
	6,163,780.23	7,993,170.58
<b>III. Cash in hand and at banks</b>	760,780.31	3,803,904.47
	17,279,261.35	19,540,232.53
<b>C. Deferred Charges and prepaid Expenses</b>	12,821.51	7,845.35
<b>D. Net loss not covered by equity</b>	1,513,056.01	1,823,371.20
	18,821,104.08	21,408,318.07

## Liabilities and Shareholders' Equity

	Status on 31/03/2021	Status on 31/03/2020
€	€	€
<b>A. Shareholders' Equity</b>		
<b>I. Capital subscribed</b>	25,000.00	25,000.00
<b>II. Loss carried forward</b>	-1,848,371.20	-2,216,299.06
<b>III. Profit for the year</b>	310,315.19	367,927.86
<b>IV. Net loss not covered by equity</b>	1,513,056.01	1,823,371.20
	0.00	0.00
<b>B. Provisions</b>		
1. Tax accruals	268,024.00	289,347.00
2. Other accruals	5,890,958.99	7,108,485.52
	6,158,982.99	7,397,832.52
<b>C. Liabilities</b>		
1. Prepayments received on orders	667,000.00	244,000.00
2. Trade liabilities	23,300.13	387,351.23
3. Accounts due to affiliated companies	11,616,892.32	11,879,465.70
4. Other liabilities	354,928.64	1,499,668.62
- thereof from taxes: € 354,076.14 (prior year: € 1,499,668.62) -		
- thereof from social security: € 852.50 (prior year: € 0.00) -		
	12,662,121.09	14,010,485.55
	18,821,104.08	21,408,318.07

## Sun Pharmaceuticals Gemany GmbH, Leverkusen

**Profit and Loss Account**  
**for the period from April 1, 2020 to March 31, 2021**

	€	€	2019/2020 €
1. Sales		28,598,326.06	27,521,059.34
2. Other operating income		836,875.68	543,538.49
- thereof from exchange rate gains: € 306,310.53 (prior year: € 290,529.23) -			
3. Cost of materials			
Cost of raw materials, supplies and trading stock		-24,130,266.21	-22,694,145.23
4. Personnel expenses			
a) Wages and salaries	-293,290.11		-50,521.98
b) Social security	-45,718.54		-9,391.77
- thereof for pensions: € 6,300.00 (prior year: € 0.00) -			
		-339,008.65	
5. Depreciation on intangible and tangible assets		-20,903.78	-27,669.49
6. Other operating expenses		-4,446,941.55	-4,691,753.82
- thereof from exchange rate losses: € 235,449.57 (prior year: € 374,475.95) -			
7. Other interest and similar income		0.00	50.00
8. Interest and similar expenses		-38,495.36	-44,590.01
- thereof from affiliated companies: € 38,495.36 (prior year: € 44,590.01) -			
9. Taxes on income		-149,045.00	-176,736.00
<b>10. Result after taxes</b>		<u>310,541.19</u>	<u>369,839.53</u>
11. Other taxes		-226.00	-1,911.67
<b>12. Net income</b>		<u><u>310,315.19</u></u>	<u><u>367,927.86</u></u>

**Sun Pharmaceuticals Germany GmbH,  
Leverkusen**

**Annex to the financial statements for the financial year  
from April 1, 2020, to March 31, 2021**

**I. General**

Sun Pharmaceuticals Germany GmbH has its registered seat in Leverkusen and is registered in the Register of Companies of the Local Court in Cologne (Reg. No. HRB 85786).

The annual financial statements as at March 31, 2021, were drawn up in accordance with the provisions of the German Commercial Code (HGB) in the version of the Accounting Directive Implementation Act (BilRUG) as are applicable for mid-sized corporations within the meaning of article 267 para. 2 HGB in conjunction with the provisions of the German Limited Companies Act (GmbHG). The company is subject to the audit requirement pursuant to Section 316 HGB for the first time in the 2020/2021 financial year.

The annual financial statements consist of the balance sheet, the profit and loss account and the Annex (including the fixed assets schedule). The profit and loss account is drawn up by the aggregate cost method according to § 275 para 2 HGB. In preparing the notes to the financial statements, the company has made use of the relief provided by § 288 HGB.

**II. Accounting and valuation principles**

The valuation of the **intangible** and the **tangible assets** is effected at purchase prices reduced by the scheduled straight-line depreciation or at the lower value to be attributed. The straight-line depreciation was calculated according to the normal (tax) useful life. Additions are depreciated pro rata temporis.

The **inventories** are valued in compliance with the lower-of-cost-or-market rule, either at purchase prices or the lower value to be attributed at the balance sheet date.

The valuation of the **accounts receivable**, the **other assets** as well as the **liquid funds** is carried out at nominal value.

The **prepaid expenses** show expenses prior to the date of the balance sheet as far as these expenses relate to a particular period after the date of the balance sheet.

The **provisions for taxation and other accruals** allow for any recognizable risks and contingent liabilities at the date the financial statements are drawn up. They are reported at the performance amount required for reasonable financial assessment.

The **liabilities** are carried at their amount payable.

**Foreign currency receivables and liabilities** are valued using the mean spot exchange rate as at balance sheet date.

### III. Notes to the balance sheet

#### 1. Fixed assets

The development of the individual items of the fixed assets is represented in the fixed assets schedule attached to the Annex.

#### 2. Current assets

The **accounts receivable and the other assets** are all due within less than one year. The receivables from affiliated companies (T€ 104) are at the same time trade receivables.

#### 3. Other accruals

Other accruals comprise the following main items:

	T€
Invoices not yet settled	5,818
Human resources	58
Audit	<u>15</u>
	<u><b>5,891</b></u>

The invoices not yet settled relate in particular to outstanding settlements under discount agreements made with various health insurance providers (T€ 5,340). The amount of the provisions set up so far is estimated for the main part on the basis of external market data obtained for the relevant quantities of the products included in the discount agreements. If and when such market data are not yet available or special effects have to be taken into account, the estimate of the quantities sold is effected on the basis of the quantities sold to the pharmaceutical wholesalers.

#### 4. Liabilities

The liabilities are all due within less than one year. The liabilities to affiliated companies (T€ 11,617) include liabilities to the shareholder in the amount of T€ 1,903.

#### IV. Notes to profit and loss account

The **sales** have been accounted for according to the revision of article § 277 para. 1 HGB in the version of the BilRUG. They are grouped as follows:

	2020/2021	2019/2020
	T€	T€
Sales from the sale of products	28,598	27,319
Sales from the performance of services	<u>0</u>	<u>202</u>
	<u>28,598</u>	<u>27,521</u>

**Other operating income** (T€ 837) includes as material items income from cost allocations to group companies (T€ 501) and exchange gain (T€ 306).

The **other operating expenses** are composed as follows:

	T€
Administrative expenses	3,340
Marketing and distribution expenses	802
Exchange loss	236
Expenses for regulatory and quality assurance	<u>69</u>
	<u>4,447</u>



## V. Other information

### 1. Auditors' fee

The total fee calculated for the financial year relates to audit services and amounts to T€ 15.

### 2. Staff

The company's staff comprises 3 employees on an annual average.

### 3. Management, advisory board

In the financial year under review:

Harin Parmanand Mehta, merchant, Mumbai, India

Hellen de Kloet, pharmacist, Bennebroek, Netherlands,

were appointed as directors.

The company takes advantage of the option provided by article 286 para. 4 HGB.

Members of the advisory board:

Hellen de Kloet	Pharmacist	Bennebroek (Netherlands)
Prashant Savla	Merchant	Hoofddorp (Netherlands), correspondence address
Neeraj Sharma	Merchant	Hoofddorp (Netherlands), correspondence address

### 4. Balance sheet overindebtedness

As of March 31, 2021, the company is over-indebted. However, an over-indebtedness within the meaning of § 64 GmbHG does not exist, because the shareholder Alkaloida Chemical Company ZRT has signed a subordination letter regarding their claims in the amount of € 1,903,005.54.

### 5. Supplementary report

After the closure of the financial year 2020/2021, no events of major importance have occurred that affect the present financial statements.

The further course of the spread of the Corona virus and the consequences on the company's business development are continuously monitored. Due to the solid liquidity base, the management currently does not assume that the existence of the company is at risk.

## 6. Appropriation of net income

The financial year closes with an annual net profit of € 310,315.19. The directors recommend that the profit should be carried forward to new account.

## 7. Group affiliation

Sun Pharmaceuticals Germany GmbH is a wholly owned subsidiary of Alkaloida Chemical Company ZRT, Tiszavasvári/Hungary, and is integrated in the consolidated financial statements of Sun Pharmaceutical Industries Limited, Mumbai/India.

The consolidated financial statements of Sun Pharmaceutical Industries Limited can be inspected at <https://www.sunpharma.com/investors-annual-reports-representations>.

Leverkusen, May 3, 2021

Sun Pharmaceuticals Germany GmbH,  
Leverkusen

Hellen de Kloet  
Managing Director

Harin Parmanand Mehta  
Managing Director

## Sun Pharmaceuticals Germany GmbH, Leverkusen

## Fixed assets movement schedule for the period April 1, 2020 to March 31, 2021

	Historical costs				Accumulated depreciation				net book value	
	Status on 1.4.2020	Additions	Disposals	Status on 31.3.2021	Status on 1.4.2020	Additions	Disposals	Status on 31.3.2021	Status on 31.3.2021	Status on 31.3.2020
	€	€	€	€	€	€	€	€	€	€
<b>I. Intangible assets</b>										
Licenses, trademarks and similar rights and assets as well as licenses to such rights and assets acquired for a consideration	136,158.00	0.00	0.00	136,158.00	136,158.00	0.00	0.00	136,158.00	0.00	0.00
<b>II. Property, plant and equipment</b>										
Other assets, plant, machinery and office equipment	169,529.26	0.00	10,646.53	158,882.73	132,660.27	20,903.78	10,646.53	142,917.52	15,965.21	36,868.99
	305,687.26	0.00	10,646.53	295,040.73	268,818.27	20,903.78	10,646.53	279,075.52	15,965.21	36,868.99

**Sun Pharmaceuticals Germany GmbH,  
Leverkusen**

**MANAGEMENT REPORT FOR THE FINANCIAL YEAR  
FROM APRIL 1, 2020, TO MARCH 31, 2021**

**Object of the company**

Sun Pharmaceuticals Germany GmbH for the most part distributes generic pharmaceuticals of the Indian company Sun Pharmaceutical Industries Limited (Sun Pharma). Sun Pharma is the largest pharmaceutical enterprise in India and amongst the fifth largest manufacturers of generics worldwide.

With its portfolio of products, the company operates on the German health market, the focus being laid on generics on the pharma market. The main customers are wholesalers, hospital and public pharmacies. Furthermore, distribution channels via the business-to-business (B2B) sector and also in the Scandinavian countries are of great importance to Sun Pharmaceuticals Germany GmbH.

**Economic report**

**General framework and business trend**

**The generics market in Germany**

In the period under review from April 1, 2020, to March 31, 2021, the total sales of generics amount to more than € 6.36 billion (source: Insight Health NPI MAT 03 2021). This stands for a sales minus of approx. 6 % compared to the same period of the previous year, whereas the sales volume decreased by approx. 10 % (source: ibid.). The reduced sales volume is partly a consequence of the Covid-19 pandemic.

On the German pharmaceuticals market, in the generics-compliant segment (generics, former originals whose patent has expired), discount agreements have taken root as a permanent feature. In the period from 03/2020 to 02/2021, the share of the generic preparations sold under discount agreements in medical prescriptions was 78% (source: Insight Health NVI-KT, MAT 02.2021).

The price competition remains intense. In addition, the maintenance of the co-payment exemption option and the additional reduction of the reference price of individual products – part of which are significant – will continue to produce effects on profitability.

For the period from 04/2020 to 03/2021 under review, the top 25 generic drug manufacturers in Germany and Sun Pharmaceuticals Germany GmbH in the prescription drug segment rank as follows:

Rank	Manufacturer	04/2020 - 03/2021 Sales ApU* (in € millions)	04/2020 - 03/2021 Growth
1	Aliud	492.8	-10%
2	Zentiva Pharma	457.7	5%
3	1 A Pharma	433.5	-13%
4	Hexal	362.0	-11%
5	ratiopharm	333.8	-19%
6	Aristo Pharma	294.0	20%
7	Heumann	261.4	-6%
8	neuraxpharm	221.1	-5%
9	betapharm	178.3	-7%
10	TAD Pharma	172.5	-21%
11	Basics	146.6	-14%
12	ABZ Pharma	143.0	-22%
13	Medac	137.9	-9%
14	Mylan Healthc.B	134.6	-5%
15	Heunet	133.7	-4%
16	Glenmark	128.1	1%
17	Accord	127.5	21%
18	Aurobindo	96.9	8%
19	PUREN Pharma	84.8	-25%
20	Falk	79.0	5%
21	Teva	74.8	-12%
22	Micro Labs	71.4	17%
23	Stadapharm	62.0	-8%
24	Meda Pharma	60.0	-3%
25	Orion Pharma	52.1	4%
89	Sun Pharmac.G.	8.1	-7%

\*) ApU = sales price of pharmaceutical companies  
Source: Insight Health NPI MAT 03.2021

As in the previous years, the German generics market was for the most part dominated by the top three groups of companies - Novartis (1A/Hexal/Novartis), Teva (Teva/Ratiopharm/ABZ) and Stada (Stadapharm/Aliud) - which together had a market share of about 30% of the sales volume (source: Insight Health, NPI MAT 03.2021). These groups of companies are most successful in using their broad and deep portfolio and their offering strategies to be awarded a great part of the discount agreements tendered by the health insurance companies.

With a gross turnover (to be understood here as the sales revenues at manufacturer's prices before deduction of discounts and other sales deductions) of more than € 8 million, Sun Pharmaceuticals Germany GmbH ranks 89<sup>th</sup> among the generic companies with the highest turnover in the period under review (04/2020-03/2021). Including the patent protected drug Odomzo, this results in total gross sales in the prescription sector of more than € 13 million in Germany. In the hospital business, the turnover of Sun Pharmaceuticals Germany GmbH amounts to more than € 3 million.

In the financial year under review, too, numerous statutory health insurance providers launched invitations to tender for discount agreements in which Sun Pharmaceuticals Germany GmbH took successfully part. In addition, in the period reviewed, several discount agreements with various health insurance companies became effective which had been tendered for in the previous year and had been awarded to Sun Pharmaceuticals Germany GmbH. Between 04/2020 and 03/2021, Sun Pharmaceuticals Germany started new discount agreements for 4 molecules with the health insurances AOK, BARMER and TK.

With regard to the hospital business, Sun Pharmaceuticals Germany GmbH is currently participating in tenders of the purchasing associations for 13 molecules. In the period 04/2020-03/2021, contracts were started for ten tenders won for seven molecules. In addition, three supply agreements were concluded with hospitals and special pharmacies.

During the financial year from 04/2020 to 03/2021, to expand its portfolio, Sun Pharmaceuticals Germany GmbH introduced pharmaceuticals for three molecules. One of these medicinal products is distributed within Germany via the B2B business.

The business development in the year under review (annual net profit: € 0.3 million) is assessed as positive by the management.

### **The generics market in the Scandinavian countries**

In the period under consideration from 1 April 2020 to 31 March 2021, Sun Pharmaceuticals Germany GmbH's sales in the Scandinavian countries (Sweden, Norway, Finland and Denmark) amount to over €14 million.

In Sweden, Sun Pharmaceuticals Germany GmbH successfully participated in the monthly national tenders for the generic medicines. The company also has contracts out of the tenders with all Swedish hospital regions supplied in the period under review 04/2020-03/2021. Sun Pharmaceuticals Germany GmbH's sales in the Swedish market amounted to SEK 50.1 million (€ 4.6 million).

In Norway, sales were made through the most important pharmacy chains. In the hospital business, the company successfully participated in the tenders of the five most important hospital regions in Norway. The turnover of Sun Pharmaceuticals Germany GmbH in the Norwegian market amounted to NOK 19.9 million (€ 1.9 million).

In Finland, the drugs were distributed, among other things, through a B2B contract with an industrial customer. In the hospital business, the company has several contracts with all five hospital regions, which have a term of two to three years. Sun Pharmaceuticals Germany GmbH's sales in the Finnish market amounted to € 6.5 million.

In Denmark, the company concluded several central hospital contracts for the drugs covering the entire Danish hospital market. The turnover of Sun Pharmaceuticals Germany GmbH in the Danish market amounted to DKK 14.6 million (€ 2.0 million)

### **EARNINGS SITUATION**

As in previous years, the growth driver for the business of Sun Pharmaceuticals Germany GmbH in Germany is the expansion of successful participation in tenders, contracts with purchasing groups and B2B business with industrial customers. In the Scandinavian business, further growth is achieved through participation in tenders in Sweden, the expansion of B2B business and contracts with the individual hospital regions.

Sales revenues increased by 3.9 % to € 28.6 million. Due to the pandemic, only 92.3 % of the forecast made at the beginning of the financial year (€ 31.0 million) was achieved.

The gross profit margin declined to 15.6 % (previous year: 17.5 %).

The personnel cost ratio this year is 1.2 % (previous year: 0.2 %). It is expected that this ratio will remain almost stable in the new financial year.

The other operating expenses show an overall decrease of € 0.2 million. This is mainly due to lower expenses for marketing and sales (€ -0.2 million) as well as for registration (€ -0.1 million) and exchange rate losses (€ -0.1 million). This was offset by an increase in administrative expenses (€ +0.2 million).

Expenses for depreciation decreased by T€ 7 compared to the previous year.

In the course of the partial repayment of a loan from the shareholder, the financial result improved by T€ 6.

The operating result is slightly lower. The return on sales is 1.6 % (previous year: 2.2 %).

After deduction of income taxes, the net profit for the year amounts to € 0.3 million.

## **FINANCIAL SITUATION**

The financial situation of the company can be described as very stable. Financial management is geared towards settling liabilities within the payment period and collecting receivables within the payment period.

Short- to medium-term assets are € 2.3 million lower than in the previous year and now amount to 91.9 % of the balance sheet total (previous year: 91.3 %).

In the course of building up the inventory for the patent-protected business, the value of the inventory assets increased by € 2.6 million to € 10.4 million as of the reporting date.

Trade receivables are € 1.8 million lower than on the previous year's reporting date.

Cash and cash equivalents decreased by € 3.0 million.

Within the scope of out-licensing projects that have not yet been completed, advance payments received increased by € 0.4 million.

Corresponding to the settlement of tender discounts by the health insurance companies within shorter time intervals, other provisions are € 1.2 million lower than in the previous year.

Other liabilities (mainly from taxes) decreased by € 1.1 million due to the balance sheet date.

Overall, the balance sheet total decreased by € 2.6 million.

The deficit not covered by equity (€ 1.5 million) is being continuously reduced by the annual surpluses achieved. In order to avoid balance sheet over-indebtedness in the sense of § 64 GmbHG, there is a subordination agreement with the shareholder, dated July 7, 2020, regarding his receivables.

## Financial indicators

For our internal management control, we use the net sales and the operating result (EBIT) as well as the EBIT as a percentage of sales as indicators.

With net sales of € 28.6 million and an operating result of € 0.5 million, the EBIT to sales is 1.6 %. Net sales of € 31.0 million and an EBIT to sales of 1.5-3.5 % were budgeted.

## Forecast report

We continue to take a positive view of the likely development of Sun Pharmaceuticals Germany GmbH. The pharmaceutical industry offers great growth potential in the area of generics, especially with regard to the conclusion of further tender contracts, if service, price and quality are strictly aligned with customer requirements.

Accordingly, sales-increasing effects are expected from successful participation in new tenders in 2021 and subsequent years. These include both the extension of existing contractual partnerships and the conclusion of contracts for additional substances with all major German statutory health insurance funds, health insurance umbrella organisations and purchasing associations as well as the tendering bodies and hospital regions in the Scandinavian countries. Further sales growth is secured by molecules that have already been awarded and corresponding contracts will start in the coming financial year. For example, discount contracts in the multi-partner model for two molecules will start in October 2021 with the second largest health insurance company in Germany, BARMER. We also continue to be well positioned in the German hospital business thanks to numerous ongoing contracts with various purchasing groups. In addition, in January 2021 further sales-increasing agreements started, for example with EKK plus, one of the largest purchasing groups in Germany. In July 2021, further contracts will start with the PBMG purchasing group for four molecules. It is particularly important here that the ability to deliver the products is ensured by a professional merchandise management system and that the inventories are subject to a continuous monitoring process.

For the new business year, new launches of various molecules on the German and Scandinavian markets are planned. These include expansions of the B2B business and extensions or additions to the existing portfolio, which will both increase competitiveness and have positive effects on net profit.

Compared to 2020/2021, the planning envisages an increase in turnover (merchandise sales) of approximately 15 %. The expected target corridor for EBIT to sales is 1.5-4.0 %.

## Risk report

As a general rule, the tender business on which Sun Pharmaceuticals Germany GmbH has focussed its activities involves certain risks, among these contractual penalties – which in part are not negligible – in the case of inability to supply or depreciation expenses that may be produced by low-inventory turnover ratios of products with a comparatively small sales volume. The latter may increase the necessity for carrying out write-downs. To minimize these risks and ensure continuous supplies of products meeting the demand, internal processes are optimized continuously.

In addition, to further minimize the business risks on the procurement side, the sources of supply are diversified by regions (Europe and Asia), if possible.

Pricing risks on the procurement side are considered to be low, as the goods are sourced almost exclusively from group companies.



The credit risk on trade receivables from the sale of pharmaceutical products is recognised by corresponding individual value allowances. A general bad debt allowance is not necessary due to stringent customer monitoring and the very low default rates resulting thereon.

Due to the Covid-19 pandemic, further sales losses cannot be ruled out. The amount of the possible loss cannot be estimated yet. An acute liquidity risk or a risk to the continued existence of Sun Pharmaceuticals Germany GmbH as a going concern is currently not discernible.

Major foreign currency risks which might have an influence on the financial and earnings position of the company do not exist. Incoming supplies of goods from countries outside the euro region are settled in euros. The potential currency risk from sales of goods in the Scandinavian countries that are not transacted in euros is compensated for, if necessary, by corresponding adjustments to the purchase prices within the Group.

### **Opportunities report**

The health market is, and will remain, a growth market.

The following focusses and opportunities have been identified:

- extension of the product ranges by additional dosage strengths, dosage forms or packaging sizes,
- the addition of new products in existing and new indication areas,
- intensified cooperation within the corporate group, and
- opening-up of new business areas.

We consider ourselves to be well prepared for continuously participating in all significant future invitations to bid by health insurance providers, laying the focus also on attaining higher profit margins, wherever possible. Likewise, there are plans to optimize the portfolio with a view to better covering the requirements of future calls for tenders.

### **Overall assessment**

In our opinion, risks for the future development are associated with the highly competitive surroundings in the area of tender agreements and the rising purchase prices and stagnating and, in part, downward sales price level as a result of permanent legal regulatory measures in particular.

In 2020, the Covid-19 pandemic had a negative impact on sales. These effects cannot be ruled out in 2021.

In the light of the stability of the liquidity of our company, we do not see any risks jeopardizing our position.

Leverkusen, May 3, 2021

Sun Pharmaceuticals Germany GmbH,  
Leverkusen

Hellen de Kloet  
Managing Director

Harin Parmanand Mehta  
Managing Director

## Legal and fiscal situation

### **Name of company, Place of registration**

Sun Pharmaceuticals Germany GmbH, Leverkusen

### **Commercial Register**

District Court of Cologne - HRB 85786

### **Object of the company**

Manufacturing and selling pharmaceutical products

### **Partnership Agreement**

Version dated August 11, 2008; last modification from April 3, 2020

### **Capital and shareholder**

	€
ALCALOIDA Chemical Company ZRT (Hungary)	<u>25,000.00</u>

### **Management**

Harin Parmanand Mehta, Mumbai (India)

Hellen de Kloet, Bennebroek (The Netherlands)

Both directors were granted the power of sole representation and are exempted from the provisions of section 181 BGB.

## **Advisory board**

Members of the advisory board in fiscal year 2020/2021

Hellen de Kloet, Bennebroek (Netherlands)

Prashant Savla, Hoofddorp (Netherlands), correspondence address

Neeraj Sharma, Hoofddorp (Netherlands), correspondence address

## **People with commercial power of attorney**

Hilmar Kerper, Mettmann

Ahmed Banjaddi, Leverkusen

## **Financial year**

April 1 to March 31 of the following year

## **Shareholders' Meeting**

An ordinary shareholders' meeting took place on September 30, 2020; the following resolutions were passed:

1. The annual financial statements of Sun Pharmaceuticals Germany GmbH as at March 31, 2020 are adopted.
2. The net profit for the year 2019/2020 amounting to € 367,927.86 is carried forward to new account.
3. Discharge is granted to the company's directors.

## **Tax status**

The company is registered with the Leverkusen Tax Office under the tax number 230/5717/3167.

The last tax audit covers the period 2016 to 2018 and was not yet completed in the 2020/2021 financial year.

# Special Engagement Terms for audits and audit-related services of Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft

As of June 1, 2019

## Preamble

These Special Engagement Terms of Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft ("*Mazars KG*") complement and clarify the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] issued by the Institut der Wirtschaftsprüfer e. V. [Institute of German Public Auditors, Incorporated Association] in the version enclosed to the engagement letter/proposal and have priority over the General Engagement Terms issued by the Institut der Wirtschaftsprüfer e. V. The Special Engagement Terms apply in a subordinate manner to the engagement letter/proposal. The engagement letter/proposal along with all enclosures form the "*Entire Engagement Terms*".

## A. Supplementary terms for audits of annual financial statements pursuant to § [Article] 317 HGB [German Commercial Code: Handelsgesetzbuch] and comparable audits according to national and international auditing standards

Mazars KG shall perform the audit pursuant to § 317 HGB and with due respect to the German Generally Accepted Auditing Standards ("*GAAS*") [Grundsätze ordnungsgemäßer Abschlussprüfung] as promulgated by the Institut der Wirtschaftsprüfer e. V. According to these, Mazars KG shall plan and perform the audit in compliance with the German Principles of Proper Professional Conduct [Grundsätze ordnungsgemäßer Berufsausübung] such that misstatements and violations materially affecting the subject of the audit defined by the engagement letter are identified with reasonable assurance.

Mazars KG shall perform all audit procedures which it considers necessary in the circumstances for a proper assessment and examine in which form the audit opinion provided for in § 322 HGB resp. the GAAS can be issued. Mazars KG shall report on the audit of the subject matter to the extent customary in the profession. In order to determine the nature, time and scope of the individual audit procedures in an appropriate manner, Mazars KG shall, where deemed necessary, audit and assess the accounting-related internal control system, in particular as far as it serves to ensure proper accounting. As is customary for the profession, Mazars KG shall perform the audit procedures on the basis of selected samples, so that there remains an unavoidable risk that even material misstatements may not be identified even though the audit has been carried out in accordance with professional standards. Therefore, e.g. acts of misappropriation and other irregularities will not necessarily be identified by the audit. Mazars KG points out that the objective of the audit is not to detect misappropriations or other irregularities that do not affect the compliance of the subject of the audit with the applicable accounting principles. Should Mazars KG, however, identify such facts during the audit, the Engaging Party ("*Engaging Party*") of Mazars KG shall be informed immediately.

All aforementioned engagement terms regarding objectives and methods of the audit apply to other audits according to national and international auditing standards in analogous manner.

It is the responsibility of the Engaging Party's management to correct material errors in the subject of the audit and to confirm to us in a letter of representation that the impact of any uncorrected errors identified by us during the current engagement are immaterial to the subject of the audit both individually and in the aggregate.

## B. Contractual relationship

Under certain circumstances, Mazars KG may be provided, in the context of the engagement and for safeguarding the Engaging Party's economic interests, with documents directly related to the client and having legal relevance. Mazars KG expressly states that it has neither an obligation to provide legal advice or legal review, nor that this engagement includes general legal advice; therefore, the Engaging Party is obliged to submit any sample formulations provided by Mazars KG in connection with the execution of the engagement to its responsible legal advisor for final legal review. The Engaging Party is responsible for all management decisions in connection with the services of Mazars KG as well as for the use of the results of the services and the decision as to whether the services of Mazars KG are suitable for the Engaging Party's own internal purposes.

## C. Access to information

It is the responsibility of the Engaging Party's management to grant Mazars KG unlimited access to records, documents and other information required for the engagement. The same applies to the submission of additional information (e.g. annual reports, statements regarding the declaration of compliance pursuant to § 161 AktG [German Stock Corporation Act: Aktiengesetz]) which is published by the Engaging Party together with the financial statements and the associated management report, if any. The Engaging Party shall make this information available in due time before the audit opinion is issued or as soon as it is available. All information made available to Mazars KG by the Engaging Party or on behalf of the Engaging Party must be fully complete ("*Engaging Party's Information*").

## D. Consultation of Mazars members and third parties

Mazars KG shall be entitled to subcontract parts of the services to other members of the worldwide Mazars network ("*Mazars members*") or to other service providers who may directly contact the Engaging Party. Irrespective of this, Mazars KG will exclusively be held liable for all results of the engagement, the provision of the services and the other obligations towards the Engaging Party resulting from the engagement letter.

The Engaging Party is therefore not entitled to assert contractual claims or initiate proceedings in connection with the services or on the basis of the engagement letter in general against another Mazars members or its subcontractors, members, shareholders, members of the management board, partners or members of staff ("*Mazars persons*") or Mazars persons of Mazars KG. Consequently, the Engaging Party shall be obliged to assert contractual claims or initiate proceedings exclusively against Mazars KG. Mazars members and Mazars personnel are entitled to refer to this provision.

In accordance with applicable law, Mazars KG shall be entitled for the purpose of

- (a) the provision of the services of Mazars KG,
- (b) compliance with professional standards as well as with regulatory requirements,
- (c) the identification of potential conflicts of interest,
- (d) risk management and quality assurance,
- (e) internal accounting as well as the provision of other administrative or IT support services

(letters (a) – (e) hereinafter referred to as "*processing purposes*") to disclose the Engaging Party's Information to other Mazars members, Mazars persons and to external service providers of Mazars KG, ("*Service Providers*") who are allowed to collect, use, transmit, save or process data otherwise (hereinafter referred to as "*to process*") in the various jurisdictions in which they operate. An overview of the locations of all Mazars members is available at [www.mazars.com](http://www.mazars.com).

Mazars KG shall be held liable towards the Engaging Party for assuring confidentiality of Engaging Party's Information, irrespective of who processes this information on behalf of Mazars KG.

#### **E. Oral information**

If the Engaging Party intends to make a decision or any other economic disposition on the basis of orally given information and/or advice by Mazars KG to the Engaging Party, the Engaging Party is obliged either (a) to inform Mazars KG in a timely manner prior to such a decision and to ask Mazars KG to confirm in writing the Engaging Party's understanding of such information and/or advice or (b) with regard to the above-mentioned risk of such orally given information and/or advice to make the decision at its own discretion and under its sole responsibility.

#### **F. Draft versions of Mazars KG**

The draft versions of the working results are only for internal purposes of Mazars KG and/or for the coordination with the Engaging Party and therefore represent only a preliminary stage of the working results and are neither final nor binding and require further review. Mazars KG is not obliged to update the final working result with regard to circumstances which have come to its knowledge or which occur after the time of completion of the work stated in the working result or in absence of such a deadline since the delivery of the working result.

This shall not apply if Mazars KG is obliged to do so due to the nature of the services.

#### **G. Indemnity and liability**

The Engaging Party is obliged to indemnify Mazars KG from all claims by third parties (including affiliated companies) as well as from any resulting obligations, damages, costs and expenses (in particular reasonable external lawyer's fees) resulting from the use of the working results by third parties, insofar the working results have been transferred directly or indirectly by the Engaging Party or at its instigation. This obligation does not exist to the extent Mazars KG has expressly agreed in writing that the third party may rely on the working result.

Regarding the liability for the underlying contractual relationship, number 9 of the General Engagement Terms as well as the statutory limitation of liability pursuant to § 323 Abs. 2 [paragraph 2] HGB shall apply. Should claims arise in connection with the contractual relationship from ancillary services relating to the statutory or voluntary audit or other audit services provided by us, our liability for such ancillary services is limited to € 4 million.

#### **H. Electronic data transmission (e-mails)**

The parties are allowed to use electronic media for the exchange and transmission of information and this form of communication as such does not constitute a breach of any confidentiality obligations. The parties are aware that the electronic transmission of information (especially via e-mail) involves risks (e.g. unauthorized access by third parties).

Any amendments to the documents transmitted via electronic media by Mazars KG as well as the disclosure of these documents to third parties via electronic media require the written consent of Mazars KG.

The transfer of personal data is subject to the data protection regulations of Mazars, which are available at [www.eng.mazars.de/Data-protection](http://www.eng.mazars.de/Data-protection). Mazars KG processes personal data in accordance with the applicable law und professional regulations, in particular in compliance with the German Federal Data Protection Act [Bundesdatenschutzgesetz (BDSG)] and the European data protection regulations. Mazars KG obliges data service providers who process personal data on behalf of Mazars KG to also abide by these regulations.

#### **I. Letter of representation**

The letter of representation requested by Mazars KG from the Engaging Party's management may also include the confirmation that the impact of uncorrected false information in the subject of the audit, summarized in an appendix to the representation letter, are immaterial both individually and in the aggregate.

#### **J. Scope of application**

The regulations contained in the Entire Engagement Terms, including the liability regulation, also apply to all future engagements placed by the Engaging Party accordingly, unless separate agreements have been made or defined in a framework agreement or unless national or foreign statutory or regulatory requirements which are binding for Mazars KG are opposed to individual regulations in favor of the Engaging Party.

For the services provided by Mazars KG the terms of the Entire Engagement Terms apply exclusively; other terms do not become terms of the agreement if the Engaging Party has not agreed these with Mazars KG in detail expressly in writing. General conditions of purchase, to which reference is made in the context of automated orders, shall not apply, even if Mazars KG does not expressly object to them or if Mazars KG starts to provide the services without reservation.

#### **K. Applicable law / Place of jurisdiction**

The professional standards developed and adopted by the relevant German professional organisations (Wirtschaftsprüferkammer [Chamber of Public Accountants], Institut der Wirtschaftsprüfer e. V., Steuerberaterkammer [Chamber of Tax Consultants]) are decisive for the performance of the engagement insofar as they are applicable to the engagement in the individual case.

This contractual relationship and all non-contractual issues or obligations resulting from this contractual relationship or from the provision of services agreed therein shall be governed by German law.

The exclusive place of jurisdiction for all legal disputes arising in connection with the engagement or services provided thereunder shall be the respective location of the contracting branch office or, at the discretion of Mazars KG, (i) the court at which the branch office of Mazars KG primarily responsible for providing the services has its registered office or (ii) the courts at the location at which the Engaging Party has its registered office.

#### **L. Data Protection**

For the processing purposes listed under letter D, Mazars KG and other Mazars persons or Service Providers are entitled to process the Engaging Party's Information that can be attributed to specific persons ("*personal data*") in the various jurisdictions in which they operate.

# General Engagement Terms

for

## Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

[German Public Auditors and Public Audit Firms]

as of January 1, 2017

### 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.