

**Ferring Arzneimittel GmbH
Kiel/Germany**

Long-form Audit Report

Long-form report on the audit
of the annual financial statements
and the management report
for the financial year
from 1 January to 31 December 2022

TRANSLATION

– German version prevails –

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Appendices

1 Management report and annual financial statements

Management report

Balance sheet

Statement of profit and loss

Notes to the financial statements

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

We draw attention to the fact that differences may arise due to the use of rounded figures and percentages.

1 Audit engagement

By resolution of the shareholder's meeting held on 10 August 2022 of

**Ferring Arzneimittel GmbH,
Kiel/Germany**

– hereafter also referred to as “Ferring” or “the Company” –

we were elected as independent auditors for the financial year from 1 January to 31 December 2022. Based on this resolution, the executive directors engaged us to conduct the audit of the annual financial statements and of the management report for the financial year ended 31 December 2022 in accordance with Sec. 317 German Commercial Code (HGB).

In accordance with Sec. 321 (4a) HGB, we confirm that our audit was conducted in compliance with the applicable regulations on independence.

Our long-form audit report has been prepared in accordance with 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).

The scope of the engagement and our responsibilities thereunder, towards both the Company and third parties, are governed by the agreement dated 7 and 14 November 2022 and complementarily by the enclosed “General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms)” as of 1 January 2017.

This long-form audit report has been prepared solely to document the audit work performed to the Company and not for any purposes of third parties. In accordance with the legal position pursuant to Sec. 323 HGB, we do not accept or assume liability to third parties.

2 Fundamental findings

Statement on the executive directors' assessment of the Company's position

We draw attention to the following aspects of the annual financial statements and the management report prepared by the executive directors as well as the other audited documents which are of particular relevance in assessing the Company's position:

- In 2022, Ferring Arzneimittel GmbH realised revenue (after sales reductions) of mEUR 49.6 (prior year: mEUR 56.6). The revenue decline of -12.4% is, amongst others, attributable to a suspension of deliveries of the product MENOGON HP since October, which has been implemented by Ferring as a precautionary measure in spite of the impeccable quality. In addition, revenue declines were caused by the discontinuation of the product ZOMACTON in the prior year as well as adjustments of fixed amounts for other products.

Cost of sales experienced a disproportionately high decrease to mEUR 31.8 (prior year: mEUR 41.2) on account of cost reductions, which resulted in an increase in gross profit of mEUR 2.4 to mEUR 17.8. The gross profit margin rose from 27.2% to 35.9%.

With other operating income remaining virtually unchanged (mEUR 4.8; prior year: mEUR 4.9) and against the backdrop of a slight increase in personnel expenses (mEUR 9.7; prior year: mEUR 9.1) following an increased headcount and owing to the set-up of personnel provisions, as well as a considerable rise in other operating expenses (up mEUR 2.1 to mEUR 11.5), the Company generated earnings before taxes of mEUR 1.3 (prior year: mEUR 1.7). The year-on-year increase in other operating expenses is primarily attributable to increasing travel activities as well as higher costs for personnel services.

As a result of tax arrears for the government tax audit from 2014 to 2017 as well as subsequent effects on the years from 2018, income tax expenses of mEUR 0.9 were incurred for other periods. The result for the year amounts to mEUR -0.1 (prior year: mEUR +1.1).

- At year-end 2022, the equity ratio came to 28.5% compared to 19.9% in the prior year as a result of the considerable decline in the balance sheet total (mEUR 18.1; prior year: mEUR 26.2).

On the assets side, the decrease in the balance sheet total was chiefly driven by the reduction in the cash pool credit balance, which was mainly used to redeem liabilities to affiliated companies.

- Based on the budget planning for the financial year 2023 and given the launch of a product in the MENOGON HP product group as well as a continued focus on the area of Women's Health, the Company anticipates a revenue increase in this therapeutic area. Further price pressure is expected in the gastroenterology area through discount agreements with German health insurance funds. The executive directors expect revenue of kEUR 49,400, an inflation-related considerable cost increase as well as a profit for the year of kEUR 1,500.

In conclusion, we state, in accordance with Sec. 321 (1) sentence 2 HGB, that we deem the executive directors' assessment of the Company's position, notably the use of the going concern basis of accounting and their assessment concerning the future development of the Company as expressed in the annual financial statements and in the management report, to be realistic.

3 Copy of the Independent Auditor's Report

We have issued the following Independent Auditor's Report on the annual financial statements and the management report of Ferring Arzneimittel GmbH, Kiel/Germany, for the financial year ended 31 December 2022 as set out in appendix 1:

"INDEPENDENT AUDITOR'S REPORT

To Ferring Arzneimittel GmbH, Kiel/Germany

Audit Opinions

We have audited the annual financial statements of Ferring Arzneimittel GmbH, Kiel/Germany, which comprise the balance sheet as at 31 December 2022, and the statement of profit and loss for the financial year from 1 January to 31 December 2022, and the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Ferring Arzneimittel GmbH, Kiel/Germany, for the financial year from 1 January to 31 December 2022.

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 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022 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 (3) sentence 1 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 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 and the Supervisory Board 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 (i.e. fraudulent financial reporting and misappropriation of assets) 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.

The supervisory board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of 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 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 judgement 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 the risk of not detecting a material misstatement 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 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.

Hamburg/Germany, 11 September 2023

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:
Michael Kritzer
Wirtschaftsprüfer
(German Public Auditor)

Signed:
Jens Werner
Wirtschaftsprüfer
(German Public Auditor)"

4 Subject, nature and scope of the audit

Subject of the audit

Our audit covered

- the accounting records
- the annual financial statements (comprising the balance sheet, the statement of profit and loss and the notes to the financial statements)
- the management report

of the Company.

The executive directors of the Company are responsible for the accounting records and the preparation of the annual financial statements and the 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 and the Supervisory Board 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 “Basis for the Audit Opinions” and “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” of our auditor’s report.

Nature and scope of the audit

Our audit was based on the prior year’s annual financial statements audited by us, on which we issued an unqualified Independent Auditor’s Report dated 14 July 2022; these annual financial statements were adopted on 10 August 2022.

We conducted our audit in accordance with Sec. 317 HGB and with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW).

Concerning the main features of our audit approach, we refer to the section “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” in the above copy of our auditor’s report in chapter 3. In order to meet these requirements, we apply our risk and process-based audit approach; for this purpose, we use our Engagement Management System (EMS) auditing software. It supports the planning, performing and documentation of the audit.

In accordance with Sec. 317 (4a) 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 conducted the audit – with interruptions – in November 2022 (interim audit) and between January and September 2023 (main audit).

In accordance with our audit plan, we tested the appropriateness and, according to our professional judgement, the operating effectiveness of the identified controls of the Company relevant to the audit. Based on the results of these tests, we determined the nature and scope of our substantive procedures (substantive analytical procedures and tests of details of selected transactions and account balances). Tests of details were performed on the basis of judgemental selections of specific items and/or by applying sampling methods.

Our audit focused on:

- substantiation of revenue
- substantiation and valuation of inventories
- completeness and valuation of provisions

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, and operating effectiveness, in particular with regard to the relevant internal controls implemented.

The Company has outsourced components of its accounting function to the service provider Genpact PLC, Hamilton/Bermuda. For assessing the appropriateness of the outsourced components of the accounting function, an ISAE 3402 Type II certificate of KPMG Assurance and Consulting Services LLP, Gurugam/India, has been provided to us.

The Company has outsourced the storage and distribution of its inventories to the warehouse keeper PharmLog Pharma Logistik GmbH, Bönen/Germany. The warehouse keeper records the inventory by way of perpetual inventory counts. The warehouse keeper's internal controls were audited for the period from 1 January to 31 December 2022 by Greis & Brosent GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf/Germany. We obtained confirmation of the Company's inventories as at 31 December 2022 from the warehouse keeper.

In auditing accounts receivable, bank balances and provisions, we requested external confirmations from selected customers and also from all banks and all lawyers and tax accountants of the Company concerning its debits, claims, rights, credits and obligations.

We did not request external confirmations of accounts payable recorded in lists of account balances at the balance sheet date. In this context, we convinced ourselves that accounts payable were recorded, maintained and processed in such a way that they could be substantiated reliably by other means.

In auditing the provisions for long-service awards, we inspected the actuarial report prepared by Aktuariat Kaiser, Versicherungsmathematische Sachverständige für Altersversorgung, Karlsruhe/Germany – taking into account our evaluation of their competence, capabilities and objectivity – with professional scepticism and used the results.

In auditing the payment obligations resulting from lifetime working time accounts, we inspected the statement on the asset value prepared by HDI Pensionsmanagement AG, Cologne/Germany, with professional scepticism and used the results.

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 11 September 2023 issued a written letter of representation in accordance with professional standards. In this letter of representation, the executive directors notably confirm that they fulfilled their responsibilities for the preparation of the annual financial statements and the management report in accordance with German commercial law and that all transactions have been recorded in the accounting records in accordance with German Legally Required Accounting Principles and are reflected in the annual financial statements or in the management report in accordance with the requirements of German commercial law.

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 Legally Required Accounting Principles. 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 annual financial statements for the financial year ended 31 December 2022 are enclosed 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 Sec. 286 (4) HGB.

5.1.3 Management report

The management report for the financial year ended 31 December 2022 is enclosed as part of appendix 1 to this long-form audit report.

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

5.2 Overall presentation of the annual financial statements

The annual financial statements taken as a whole, i.e. the combined presentation of the balance sheet, the statement of profit and loss and the notes to the 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.

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

Multi-year data overview

		2022	2021	2020	2019	2018
Revenue	kEUR	49,627	56,544	61,921	62,870	66,645
Cost of materials	kEUR	31,826	41,246	44,578	41,440	45,849
Gross profit	kEUR	17,801	15,298	17,343	21,430	20,796
Gross profit margin	%	35.9	27.1	28.0	34.1	31.2
Employees (annual average)	Heads	73	71	82	98	103
EBIT ¹	kEUR	1,265	1,696	1,601	1,134	434
EBITDA ²	kEUR	1,300	1,781	1,658	1,267	563
Profit/loss for the year	kEUR	-60	1,066	1,063	692	352
Balance sheet total	kEUR	18,093	26,248	22,359	17,306	20,009
Equity	kEUR	5,152	5,212	7,146	6,084	5,392
Equity ratio	%	28.5	19.9	32.0	35.2	26.9

¹ EBIT = earnings before interest and taxes

² EBITDA = earnings before interest, taxes, depreciation and amortisation

6 Concluding remark

The above long-form audit report on our audit of the annual financial statements and of the management report of Ferring Arzneimittel GmbH, Kiel/Germany, for the financial year from 1 January to 31 December 2022 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 chapter 3 “Copy of the Independent Auditor’s Report”.

Hamburg/Germany, 11 September 2023

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:
Michael Kritzer
Wirtschaftsprüfer
(German Public Auditor)

Signed:
Jens Werner
Wirtschaftsprüfer
(German Public Auditor)

The publication or distribution of the annual financial statements and/or the management report to third parties in a form other than the version on which our Independent Auditor’s Report has been issued, or the translation into other languages requires our renewed representation if our Independent Auditor’s Report is quoted or reference is made to our audit in this context; in this respect, we draw attention to the regulation under Sec. 328 German Commercial Code (HGB).

Ferring Arzneimittel GmbH
Kiel/Germany

Appendix 1

Management report and
annual financial statements
for the financial year
from 1 January to 31 December 2022

Ferring Arzneimittel GmbH

Management report for the financial year ended 31 December 2022

I. General information about the Company

Ferring Arzneimittel GmbH, Kiel/Germany, is the marketing and sales company of the international Ferring Group in Germany.

Ferring Group is a research-intensive, highly specialised pharmaceutical company with registered office in Switzerland, which operates globally. Ferring researches, develops and markets innovative pharmaceuticals in the fields of gastroenterology, gynaecology, obstetrics and urology.

II. Financial review

1. Macroeconomic and industry-related environment

Healthcare policy interventions in the form of reforms over the past few years have revealed a trend toward promoting competition between all parties involved. This is reflected by current legal measures. Pharmaceutical companies in Germany are considerably affected by producer charge discounts, the continued moratorium on prices, refunds at the end of early benefit assessment, fixed amounts, discount contracts and regional pharmaceuticals agreements.

The development of spending by German statutory health insurance funds is of particular interest and is regularly a subject of discussion in the field of healthcare policy. The reforms of the past few years have not led to a sustainable stabilisation and a thorough reform of the financial situation in the context of German statutory health insurance. On account of the stable economic situation up until the outbreak of the pandemic, health funds and individual insurers forming part of German statutory health insurance funds had recorded surpluses. The trend of healthcare expenditure of German statutory health insurance funds as a proportion of GDP shows a relatively constant level of about 1.29% (source: p. 51; "Pharma Daten 2022"; German Pharmaceutical Industry Association (BPI)). Taking into account the effects of the economic crisis dated back longer and the ongoing COVID-19 crisis, pharmaceutical spending as a proportion of GDP did not increase faster than the macroeconomic performance. In view of this development, there is no indication of a "cost explosion" in the healthcare system (source: p. 53; "Pharma Daten 2022"; German Pharmaceutical Industry Association (BPI)).

In 2021, pharmaceutical spending totalled bEUR 44.34, i.e. 15.59% of the total spending of German statutory health insurance funds (bEUR 284.33) (source: p. 56; "Pharma Daten 2022"; German Pharmaceutical Industry Association (BPI)).

In 2010, the German Act for Changing Health Insurance and Other Regulations included cost reduction measures in the pharmaceuticals sector. In addition to the known measure for price regulation by means of a fixed amount, the producer charge discount for medication not covered by the fixed amount regulation was increased from 6% to 16% effective as of 1 August 2010. At the time the producer charge discount was increased, a moratorium on price increases (prices were fixed at the level as at 1 August 2009) was enforced for the period from 1 August 2010 to 31 December 2013. There is a noticeable trend that, since their introduction in 2003, producer charge discounts have repeatedly been adjusted depending on financing deficits and political targets. In addition, a moratorium on price increases (prices fixed at the level as at 1 August 2009) has been applicable without interruptions (source: p. 60; "Pharma Daten 2022"; German Pharmaceutical Industry Association (BPI)).

Under the 13th and 14th German Act for Changing Health Insurance and Other Regulations adopted in 2014, the 16% producer charge discount on medications (not covered by the fixed amount regulation) was lowered to 7% as of 1 April 2014. All further producer charge discounts (10% generic discount and 16% discount on medications not covered by the fixed amount regulation that could, however, be subject to a fixed amount) remained unchanged. However, the producer charge discounts were lowered with the option of adjustment at any time, depending on the financial situation of health insurance funds. In 2021, the burden on the pharmaceutical industry through producer charge discounts totalled around bEUR 2.25 (source: p. 62, "Pharma Daten 2022"; German Pharmaceutical Industry Association (BPI)).

The German Act on Reforming the Pharmaceutical Market (AMNOG), which entered into force on 1 January 2011, constituted a paradigm change in view of pharmaceuticals pricing in Germany. The price fixed for an innovative medication by a pharmaceutical company is only fully refundable in the first year after its launch. Subsequent refundability through German statutory health insurance funds and the price level of products are significantly influenced by the results of the newly introduced early benefit assessment and any subsequent price negotiations with the National Association of Statutory Health Insurance Funds.

Since 2003, German health insurance funds have legally been permitted to conclude specific discount agreements with pharmaceutical companies according to Sec. 130a (8) Volume V German Social Security Code (SGB). Meanwhile, the number of medications subject to discount agreements is at a high level for all German statutory health insurance funds. Almost all German health insurance funds have concluded discount agreements, predominantly for generic medications. More than half of all pharmaceuticals sold in the German statutory health insurance market are subject to discount regulations (source: p. 65; "Pharma Daten 2022"; German Pharmaceutical Industry Association (BPI)).

In June 2022, 97 German statutory health insurance funds had concluded 17,481 contracts on 20,664 forms of trading with 252 pharmaceutical companies (source: p. 65; "Pharma Daten 2022"; German Pharmaceutical Industry Association (BPI)).

Non-inclusion in a discount agreement has the same effect as a partial exclusion from the market because it leads to a binding preference for supplying discounted medication by pharmacists for the contractual period, which is mostly two years. Selective contractual competition between producers and insurance funds generally takes place in a highly regulated overall system characterised by massive market interventions and a monopoly position of health insurance funds.

The price regulation instruments referred to above also apply to medications of Ferring Arzneimittel GmbH. A major part of the products included in its current product portfolio operate in the market segment that is no longer subject to patent protection, so-called old originals. This segment is a core target of statutory cost reduction measures.

This price-regulating legislation has led to pressure on pharmaceutical producers, particularly because wages, cost of materials and energy costs have increased in the past few years.

2. Business performance

Ferring Arzneimittel GmbH operates in the strategic core segments of reproductive medicine, gynaecology, gastroenterology and urology. In the financial year 2022, a considerable decline in revenue (mEUR 49.6; 2021: mEUR 56.6) was recorded in line with expectations.

Reproductive medicine:

In the reproductive medicine segment, Ferring Arzneimittel GmbH has a leading market position in the treatment of infertility. Its MENOGON HP, REKOVELLE, BREVACTID and DECAPEPTYL IVF products enable Ferring Arzneimittel GmbH to offer specialised clinics a broad range of products.

Women's Health

The existing product portfolio has been distributed in Germany in the form of an in-house hospital line since August 2011. The availability of generic drugs led to a further slump in prices for the products TRACTOCILE and PABAL.

Gastroenterology:

The PENTASA medication is used in the treatment of Crohn's disease and ulcerative colitis. In 2017, a line extension, the 4g sachet, was launched. It was possible to extend the authorisation for the product CORTIMENT. Therefore, CORTIMENT is also used for Crohn's disease and ulcerative colitis.

Urology:

In the urology segment, the business trend primarily concentrates on the FIRMAGON preparation in the field of uro-oncology.

The endocrinology segment has meanwhile ceased to be a strategic core segment.

Ferring Arzneimittel GmbH predominantly procures finished products from Ferring Group.

Human resources and social matters:

The outsourcing projects in the areas of finance and IT initiated in 2020 were successfully implemented in 2021. In 2022, the cooperation with the Competence Centre in Lisbon/Portugal was intensified and further developed.

Ferring Arzneimittel GmbH has a bonus system based on individual target agreements, which continues to apply to all employees.

3. Financial performance

In 2022, Ferring Arzneimittel GmbH realised net total revenue (after sales deductions) of mEUR 49.6 (2021: mEUR 56.6). This corresponds to a revenue decline of -12.4%.

The product MENOGON HP was subject to a delivery suspension in October due to a third party making changes to the production process of MENOGON HP. The data reviewed by Ferring showed that the safety and effectiveness of the product was not affected. The suspension of delivery was performed as a precautionary measure. Following the consent of the approval authority, German Federal Institute for Drugs and Medical Devices (BfArM), the product has been on sale as usual again since February 2023. The loss in revenue in 2022 amounted to mEUR 2.4.

The discontinuation of the product ZOMACTON in the financial year 2021 resulted in a revenue decrease of mEUR 1.5 in the financial year 2022.

The distribution of the products VITAROS and VSL (mEUR -0.75) was discontinued in 2022. Revenue for PENTASA Sachets decreased by nearly mEUR 2 on account of an adjustment to the fixed amount despite a rise in volumes.

In 2022, Ferring Arzneimittel GmbH paid a total of mEUR 1.6 (2021: mEUR 2.2) in form of producer charge discounts, reclaims on account of the moratorium on prices and discounts on generic drugs to statutory and private health insurance funds.

Classification of revenue by customer group (before sales deductions):

	2022	2021
Pharmacies	2.91%	2.94%
Wholesalers	79.19%	80.90%
Hospitals	17.90%	16.16%
Total	100.0%	100.0%

Wholesalers remain the customer group generating the highest revenue for Ferring Arzneimittel GmbH, with the wholesale business accounting for 79% of total revenue in 2022.

Cost of sales decreased to mEUR 31.8 (2021: mEUR 41.2). The gross profit rose by mEUR 2.4 to mEUR 17.8. The gross profit margin increased from 27.2% to 35.9%, which was mainly due to a disproportionately high decrease in cost of materials.

Other operating income went down to mEUR 4.8 (prior year: mEUR 4.9), thus falling slightly short of the prior-year level by mEUR 0.1.

Personnel expenses increased by mEUR 0.5 to mEUR 9.7. The main reason for this can be found in the strengthening of the medical team and the set-up of provisions (refocus programme).

Other operating expenses rose by mEUR 2.2 to mEUR 11.6. The year-on-year rise in other operating expenses is notably owed to travel activities of kEUR 631 (2021: kEUR 281) and higher costs for personnel services of kEUR 1,798 (2021: kEUR 1,175).

Return on revenue (earnings before taxes/revenue) amounted to +2.6% in 2022 (2021: +3.0%). Earnings before taxes total mEUR 1.2 as a result of the developments described above, falling short of the prior-year level by mEUR 0.4. The loss for the year amounts to mEUR -0.1 (2021: profit for the year of mEUR 1.1), thus coming in below the prior-year level. The income tax expense is up on the prior-year figure despite lower earnings (2021: mEUR +0.7) on account of a tax arrear of mEUR 0.5 in 2022. As a result of this exceptional effect, the earnings forecast from the prior year could not be met.

4. Financial position

As at the end of the year 2022, cash and cash equivalents amounted to kEUR 0, which is a kEUR 33 decrease from the prior year. In addition, there is a cash pool credit balance of kEUR 562 (prior year: kEUR 7,597). The reduction in cash pool credit balances was used to reduce liabilities to affiliated companies.

Current liabilities of the Company are predominantly restricted to trade payables, liabilities to affiliated companies and provisions. Short-term financing is ensured via a group-wide cash pool.

In 2022, capital investments totalling kEUR 83 were made in hardware and office furniture.

5. Assets and liabilities

As a mere marketing and sales company, Ferring Arzneimittel GmbH has a low capitalisation ratio.

Inventories increased by mEUR 0.9 to mEUR 14.0 compared to the prior year.

Receivables and other current assets were down by mEUR 9.2 from the prior year, amounting to mEUR 3.9. The variation is primarily attributable to a decrease in cash pool receivables from affiliated companies. Other provisions amount to mEUR 8.3, slightly down from the prior-year level (mEUR 9.3). The year-on-year decline comes primarily as a result of eliminating producer charge discounts (kEUR 577).

Liabilities to affiliated companies mainly result from purchased merchandise and decreased by mEUR -7.5 to mEUR 2.5 compared to the prior year. This change relates to the reduction in cash pool credit balances.

As at year-end 2022, the equity ratio was at 28.5% compared to 19.9% in 2021. One major reason for this trend was the reduction in the balance sheet total to mEUR 18.1 (prior year: mEUR 26.2) as described above.

III. Reporting on outlook, risks and opportunities

For management control purposes and to identify risks at an early stage, there are, at the level of Ferring Arzneimittel GmbH, regular reconciliation meetings of management with the persons in charge of the different functions, forecasts and deviation analyses are prepared at regular intervals and risk management is based on a risk management report and internal systems of accounting controls.

The related control variables are revenue and costs. Non-financial performance indicators are immaterial for management control purposes. The focus will continue to be on continuous optimisation of methods and measures in the future. Possible effects of developments in the sector of healthcare policies are regularly discussed both at corporate level and at the level of Ferring Group.

Due to the positive development of the product portfolio, the management assesses the situation in terms of risks and opportunities as positive in comparison with the prior year, owing especially to the coming launch of the MENOGON HP Pen.

The possibility of a tender for exclusive discount contracts for active substances of the portfolio which have previously not been affected represents the major risk for the short-term development of Ferring Arzneimittel GmbH. In 2022, a total amount of mEUR 1.5 was paid over to German statutory and private health insurance funds or provided for in the form of producer charge discounts, reclaims on account of the moratorium on prices and discounts on generic drugs. For 2023, these revenue reductions are expected to increase against the backdrop of a rise in the producer charge discount from January 2023.

The war in Ukraine, which began in February 2022, has not had any impact on the sales of Ferring Arzneimittel GmbH. There have also not been any supply chain disruptions resulting thereof. The impact on cost development is difficult to assess. However, given the general inflation, higher costs are expected.

The national and global economic challenges caused by the COVID-19 pandemic continue to pose risks. Ferring continues to work on the initiated measures while giving the highest priority to the protection of employees.

Based on the budget planning for the financial year 2023 and given the launch of a product in the MENOGON HP product group as well as a continued focus on the area of Women's Health, Ferring Arzneimittel GmbH anticipates a revenue increase in this therapeutic area. Further price pressure is expected in the gastroenterology area through discount agreements with German health insurance funds.

A positive result for the year of kEUR 1,500 and revenue of kEUR 49,400 are expected for the financial year 2023 despite the high cost pressure in the financial year 2023 due to rising inflation.

Kiel/Germany, 11 September 2023

Ferring Arzneimittel GmbH

The Executive Director

Stéphanie Caron

Ferring Arzneimittel GmbH, Kiel/Germany

Balance sheet as at 31 December 2022

Assets			Equity and liabilities		
	31 Dec. 2022 EUR	31 Dec. 2021 kEUR		31 Dec. 2022 EUR	31 Dec. 2021 kEUR
A. Fixed assets			A. Equity		
I. Intangible fixed assets			I. Subscribed capital	550,000.00	550
Purchased concessions, industrial and similar rights and assets as well as licences in such rights and assets	3,946.80	8	II. Retained profits brought forward	4,662,200.17	3,596
II. Property, plant and equipment			III. Profit/loss for the year	-59,770.13	1,066
1. Technical equipment and machinery	0.01	0		<u>5,152,430.04</u>	<u>5,212</u>
2. Other equipment, operating and office equipment	114,792.83	63	B. Provisions		
	<u>114,792.84</u>	<u>63</u>	1. Tax provisions	978,708.54	86
	<u>118,739.64</u>	<u>71</u>	2. Other provisions	8,306,330.54	9,327
B. Current assets				<u>9,285,039.08</u>	<u>9,413</u>
I. Inventories			C. Liabilities		
Merchandise	14,048,499.09	13,087	1. Liabilities to banks	145.70	0
II. Receivables and other current assets			of which with a residual term of up to one year: EUR 145.70 (prior year: kEUR 0)		
1. Trade receivables	684,515.66	791	2. Trade payables	827,648.54	1,355
2. Receivables from affiliated companies	2,952,498.47	10,956	of which with a residual term of up to one year: EUR 827,648.54 (prior year: kEUR 1,355)		
3. Other current assets	268,489.99	1,310	3. Liabilities to affiliated companies	2,487,304.33	10,026
	<u>3,905,504.12</u>	<u>13,057</u>	of which with a residual term of up to one year: EUR 2,487,304.33 (prior year: kEUR 10,026)		
III. Cash-in-hand and bank balances	0.00	33	4. Other liabilities	340,415.51	242
	<u>17,954,003.21</u>	<u>26,177</u>	of which taxes: EUR 201,866.11 (prior year: kEUR 161)		
C. Prepaid expenses	20,240.35	0	of which social security and similar obligations: EUR 6,514.72 (prior year: kEUR 0)		
			of which with a residual term of up to one year: EUR 340,415.51 (prior year: kEUR 242)		
	<u>18,092,983.20</u>	<u>26,248</u>		<u>3,655,514.08</u>	<u>11,623</u>
				<u>18,092,983.20</u>	<u>26,248</u>

Ferring Arzneimittel GmbH, Kiel/Germany

**Statement of profit and loss
for the financial year from 1 January to 31 December 2022**

	2022 EUR	Prior year kEUR
1. Revenue	49,627,273.57	56,644
2. Other operating income	4,764,574.09	4,920
of which income related to currency translation: EUR 307.98; prior year: kEUR 0		
3. Cost of materials		
Cost of raw materials, consumables and supplies and of purchased merchandise	31,826,278.09	41,246
4. Personnel expenses		
a) Wages and salaries	8,419,932.01	7,846
b) Social security, post-employment and other employee benefit costs	1,295,916.44	1,300
of which post-employment costs: EUR 382,859.07; prior year: kEUR 147		
	<u>9,715,848.45</u>	<u>9,146</u>
5. Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of property, plant and equipment	35,248.19	85
6. Other operating expenses	11,546,818.55	9,388
of which expenses related to currency translation: EUR 581.64; prior year: kEUR 1		
7. Other interest and similar income	8,583.97	0
8. Interest and similar expenses	19,598.05	11
of which from unwinding of discount: EUR 19,588.65; prior year: kEUR 8		
9. Income taxes	<u>1,313,963.89</u>	<u>619</u>
10. Earnings after taxes	-57,323.59	1,069
11. Other taxes	<u>2,446.54</u>	<u>3</u>
12. Profit/loss for the year	<u><u>-59,770.13</u></u>	<u><u>1,066</u></u>



NOTES TO THE FINANCIAL STATEMENTS

Fabrikstr. 7
24103 Kiel/Germany
Registration court: Kiel/Germany local court, HRB 4271 KI

Ferring Arzneimittel GmbH, Kiel/Germany

Notes to the financial statements for the financial year 2022

1. General information

The annual financial statements for the year ended 31 December 2022 have been prepared in accordance with the regulations of the German Commercial Code (HGB) and the additional regulations of the German Limited Liability Companies Act (GmbHG).

As in the prior year, the annual financial statements for the year ended 31 December 2022 have been prepared in accordance with the regulations applicable to large business corporations under the HGB.

The classifications comply with the legal formats under Secs. 266 and 275 HGB; the nature of expense format (Sec. 275 (2) HGB) has been applied to the statement of profit and loss.

2. Recognition and measurement policies

Purchased **intangible fixed assets** are measured at acquisition cost less amortisation and write-downs. These assets are amortised on a straight-line basis. For software and rights of use, a useful life of three to five years is assumed.

Property, plant and equipment are measured at acquisition cost less depreciation. These assets are regularly depreciated on a straight-line basis.

The underlying estimated useful life for technical equipment and machinery is between five and ten years; for other equipment, operating and office equipment, the useful life is between three and thirteen years.

For additions to moveable assets, depreciation was calculated per month in 2022. Low-value items of up to a net value of EUR 1,000.00 have been fully expensed in the year of acquisition.

Inventories are measured at historical acquisition cost according to the FIFO formula or the approach that requires inventories with shorter expiry dates to be used first (first expiry – first out). Inventory risks related to reduced usability, storage period or similar are covered by making allowances.

Trade receivables, receivables from affiliated companies as well as **other current assets** and **cash and cash equivalents** are recognised at nominal value. Appropriate allowances were made in order to cover the default risk entailed in trade receivables.

Prepaid expenses relate to payments made before the balance sheet date to the extent that these constitute expense for a given period thereafter.

Deferred taxes are generally recognised for differences expected to reverse in future financial years between the amounts of assets and liabilities stated in the balance sheets under German commercial law and their tax base. Resulting net deferred tax assets as at the balance sheet date are not recognised, exercising the option under Sec. 274 (1) sentence 2 HGB.

The **subscribed capital** is recognised at nominal value.

Provisions cover all risks and uncertain obligations identifiable as at the balance sheet date. They were recognised at settlement value based on sound business judgement.

Long-service award provisions have been determined according to actuarial principles and the so-called “projected unit credit method” using an interest rate of 1.40% p.a. (prior year: 1.39% p.a.) for an assumed average remaining period to maturity of 15 years on the basis of the 2018 G Klaus Heubeck Standard Tables and, as in the prior year, on the basis of an employee turnover rate of 15% p.a.

Provisions for returns were made on the basis of past experience.

Liabilities were recognised at settlement value.

Currency translation for assets and liabilities denominated in foreign currency is made at the respective rates at the date of origination. Short-term items are measured using the middle spot exchange rate as at the balance sheet date.

3. Notes to the balance sheet

Fixed assets

The classification of fixed assets and their movements are presented separately in an appendix which is part of the notes to the financial statements.

As in the prior year, **trade receivables, receivables from affiliated companies** and **other current assets** have a remaining term of up to one year.

Receivables from affiliated companies

These receivables, which total kEUR 2,952 (prior year: kEUR 10,956), include cash pool assets and other assets totalling kEUR 562 (prior year: kEUR 7,597) and kEUR 2,390 (prior year: kEUR 3,359), respectively. The included receivables from the shareholder amount to kEUR 238 (prior year: kEUR 2,331).

Provisions

Other provisions primarily include discounts under the German Act on Economic Efficiency of Medicine Prescription (AVWG), amounts related to various personnel expenses, outstanding invoices, reimbursement of contracting parties and returns (kEUR 5,263, kEUR 1,572, kEUR 904, kEUR 544 and kEUR 9, respectively).

The provision for long-service awards amounted to kEUR 89 as at the balance sheet date.

The Company runs a lifetime working time account model, with the amounts credited to the accounts being protected against insolvency by means of a double trusteeship instrument. Credits (acquisition cost) and provisions are matched at kEUR 2,850 as at the balance sheet date and are netted in accordance with Sec. 246 (2) sentence 2 HGB. Given that the lifetime working time accounts are held in monetary form, the amount of the liability is determined exclusively based on the fair value of the net assets. Thus, no expenses or income that would be required to be offset resulted from this in the financial year.

Liabilities to affiliated companies

Liabilities of kEUR 2,487 (prior year: kEUR 10,026) comprise an amount of kEUR 2,421 (prior year: kEUR 9,924) relating to trade and an amount of kEUR 66 (prior year: kEUR 102) relating to other liabilities. This item also includes liabilities to the shareholder of kEUR 19 (prior year: kEUR 95).

Unrecognised transactions/other financial commitments

These commitments amount to kEUR 1,265 and include kEUR 551 for rental payment obligations (office space at Fabrikstraße) as well as kEUR 714 for motor vehicle lease liabilities. The term of the lease for office space will expire on 31 December 2024. Lease liabilities for motor vehicles normally have a term of three, in exceptional cases, however, of up to five years. The purpose and the benefit of these unrecognised transactions is that initial net investments can be avoided. Further charges may arise from potential revisions of damage or, in the case of vehicle lease contracts, from exceeding mileage.

4. Notes to the statement of profit and loss

Revenue

Revenue, which was realised with pharmaceutical products in Germany, can be analysed as follows:

	kEUR
Reproductive medicine/endocrinology	24,888
Gastroenterology/obstetrics	19,203
Urology	5,361
Total	49,452

In addition, revenue of kEUR 175 mainly results from recharged personnel expenses.

Other operating income

Other operating income amounted to kEUR 4,765 in the reporting year and includes income for prior periods of kEUR 810, which resulted from the reversal of provisions.

Income taxes

Income taxes relate to municipal trade tax of the reporting year totalling kEUR 222 as well as to corporate income tax and the solidarity surcharge of the reporting year totalling kEUR 212. Besides, this item comprises expenses from other periods totalling kEUR 880.

5. Other disclosures

Executive directors, supervisory board

Until 30 Nov. 2022, the Company was represented by Dr Thomas Leiers as executive director with sole power of representation. Since 1 Nov. 2022 the Company has been represented by Ms. Stéphanie Caron as executive director with sole power of representation. The job title corresponds to the executive body position.

The remuneration paid to the executive director is not disclosed by admissible application of Sec. 286 (4) HGB.

The Company has a supervisory board, which has the following members:

Frederik Paulsen, Chairman of Ferring's Board of Directors,
Aaron Graff, Chief Commercial Officer Ferring Group,
Dr Peter Wilden, former CFO Ferring Group (retired), and
Timm Diestel, lawyer, Diestel & Partner.

In 2022, no remuneration was paid for supervisory board activities.

Fees paid to the auditor of the financial statements

The fees paid for auditing financial statements amount to kEUR 55.

Number of employees

In the reporting year, the average headcount was 73 (prior year: 71) employees:

Managing executives:	Non-executive staff:
3 female employees	48 female employees
1 male employee	21 male employees

Group affiliation

The sole shareholder and **parent company** is Ferring B.V., Hoofddorp/Netherlands, which prepares consolidated financial statements for the smallest group of entities including the subsidiaries. The consolidated financial statements of Ferring B.V. are not published.

The company that prepares the consolidated financial statements for the largest group of entities is Ferring Holding S.A., Saint-Prex/Switzerland. The consolidated financial statements of Ferring Holding S.A. are published on the website www.ferring.com.

Post-balance-sheet-date events

There were no major post-balance-sheet-date events.

Kiel/Germany, 11 September 2023

Ferring Arzneimittel GmbH
The Executive Director

Stéphanie Caron

Movements in fixed assets in the financial year 2022

	Acquisition cost			Balance as at 31 Dec. 2022 EUR	Accumulated amortisation/depreciation/write-downs			Book values		
	Balance as at 1 Jan. 2022 EUR	Additions EUR	Disposals EUR		Balance as at 1.1.2022 EUR	Additions EUR	Disposals EUR	Balance as at 31.12.2022 EUR	Balance as at 31.12.2022 EUR	Prior year kEUR
I. Intangible fixed assets										
Purchased concessions, industrial and similar rights and assets as well as licences in such rights and assets	288,812.35	0.00	0.00	288,812.35	280,494.40	4,371.15	0.00	284,865.55	3,946.80	8
II. Property, plant and equipment										
1. Technical equipment and machinery	145,010.21	0.00	0.00	145,010.21	145,010.20	0.00	0.00	145,010.20	0.01	0
2. Other equipment, operating and office equipment	535,763.72	83,175.63	0.00	618,939.35	473,269.48	30,877.04	0.00	504,146.52	114,792.83	63
	<u>680,773.93</u>	<u>83,175.63</u>	<u>0.00</u>	<u>763,949.56</u>	<u>618,279.68</u>	<u>30,877.04</u>	<u>0.00</u>	<u>649,156.72</u>	<u>114,792.84</u>	<u>63</u>
	<u>969,586.28</u>	<u>83,175.63</u>	<u>0.00</u>	<u>1,052,761.91</u>	<u>898,774.08</u>	<u>35,248.19</u>	<u>0.00</u>	<u>934,022.27</u>	<u>118,739.64</u>	<u>71</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.