



Annual financial statements as of March 31, 2019 and management report

TRANSLATION – AUDIT REPORT

Glenmark Arzneimittel GmbH
Gröbenzell, Germany

KPMG AG Wirtschaftsprüfungsgesellschaft

The English language text below is a translation provided for information purposes only. The original German text shall prevail in the event of any discrepancies between the English translation and the German original. We do not accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may arise from the translation.

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Please note that for computational reasons, rounding differences to the exact mathematical figures (monetary units, percentages, etc.) may occur.

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To Glenmark Arzneimittel GmbH, Gröbenzell

1 Audit engagement

At the shareholders' meeting of

Glenmark Arzneimittel GmbH, Gröbenzell,
– hereinafter also referred to as the 'Company' –

we were elected as auditor for financial year 2019. Accordingly, management has engaged us to audit the annual financial statements for the year ended March 31, 2019, together with the accounting records and the management report.

The terms governing this engagement are set out in the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as amended on January 1, 2017, which are attached to this report as Appendix 2. Our liability is governed by Clause 9 of the General Engagement Terms. Our liability towards third parties is defined under Clauses 1 (2) and 9 of the General Engagement Terms.

2 Reproduction of the Independent Auditor's Report

Based on the results of our audit, we have issued the following unqualified audit opinion:



Independent Auditor's Report

To Glenmark Arzneimittel GmbH, Gröbenzell

Opinions

We have audited the annual financial statements of Glenmark Arzneimittel GmbH, Gröbenzell, which comprise the balance sheet as of March 31, 2019, the income statement for the financial year from April 1, 2018 to March 31, 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Glenmark Arzneimittel GmbH for the financial year from April 1, 2018 to March 31, 2019.

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 of March 31, 2019, and of its financial performance for the financial year from April 1, 2018 to March 31, 2019, in accordance 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 HGB [Handelsgesetzbuch: German Commercial Code], 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 Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Responsibilities of Management for the Annual Financial Statements and the Management Report

Management is 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, management is 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, management is 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, management is 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, management is 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 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 the 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 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 opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- conclude on the appropriateness of management's 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 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 management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 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.

Munich, July 5, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

[signature] Rüter
Wirtschaftsprüfer
[German Public Auditor]

[signature] Argyrakis
Wirtschaftsprüfer
[German Public Auditor]



3 Evaluation of management's assessment of the Company's position

In our opinion, the following key statements in the management report are noteworthy:

- The key performance indicators for corporate management are revenue and EBIT. At EUR 38.0 million (PY: EUR 30.3 million), revenue is 25.2% above the prior year's level; EBIT has declined by EUR 0.54 million to EUR 1.22 million (PY: EUR 1.76 million).
- Total assets increased by EUR 4.4 million in the year under review, to EUR 65.45 million. This increase is mainly due to a business loan to a group company. Receivables and other assets increased in total. Cash and cash equivalents declined. On the liabilities side, liabilities related to discounts awarded as part of health insurance fund discounts increased by EUR 3.47 million.
- The Company finances itself predominantly from cash flows from operating activities. No external financing takes place, therefore no credit lines have been established with banks.
- The Company has cost structures that will also ensure growth and competitiveness in future. Glenmark Arzneimittel GmbH will continue to concentrate on concluding discount agreements in the future and is gradually exploiting new therapy target groups.
- The Company sees risks concerning supply, price and cost. The supply risk relates to the reliability of suppliers. As the Company continuously monitors its suppliers, this risk is considered medium. The price risk relates mainly to price changes as a result of statutory requirements or new providers entering the market. This risk is considered medium. Cost risks relate mainly to procurement costs from external and group suppliers. This risk is considered low.
- For financial year 2019/2020, the Company forecasts a slight rise in revenue of approx. 5% and an unchanged EBIT.

As a result of our audit, we found that the 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.

4 Performance of the audit

4.1 Scope of the audit

We have audited the annual financial statements of Glenmark Arzneimittel GmbH, which comprise the balance sheet as of March 31, 2019, the income statement for the financial year from April 1, 2018 to March 31, 2019 and the notes to the financial statements for financial year 2018/19, including the accounting records, and the management report for the financial year ended March 31, 2019.

Our responsibility is to express an opinion on the annual financial statements and the management report based on our audit.

An audit only covers compliance with other regulations to the extent that these other regulations can be expected to have an impact on the annual financial statements or the management report.

Pursuant to Section 317 (4a) HGB, an audit is not intended to extend to whether the Company's ability to continue as a going concern or the effectiveness and efficiency of management can be assured.

4.2 Nature and scope of audit procedures

The general principles of our audit approach are already presented in the Independent Auditor's Report (see Section 2 of this report). In addition, we provide the following information on our audit approach and audit performance:

Phase I: Development of an audit strategy focused on business risks

Obtaining an understanding of the Company's business as well as knowledge of the accounting systems and the internal control system

Establishing audit focus areas based on our risk assessment:

- Audit of the process of preparing annual financial statements
- Revenue recognition and cut-off
- Existence and valuation of inventories
- Measurement of discount provisions

Establishing the audit strategy and timeline for the audit

Selecting the audit team and planning the deployment of specialists

Phase II: Selection and implementation of control-based audit procedures

Selection of control-based audit procedures based on risk assessments and knowledge of business processes and systems

Assessment of the design and effectiveness of selected accounting-related controls

Phase III: Tests of details and analytical review of items in the annual financial statements

Performance of analytical reviews of items in the annual financial statements

Tests of details on a sample basis and assessment of individual items with a view to the accounting options and judgments exercised, e.g.:

- Obtaining confirmations from lawyers and tax advisors
- Obtaining confirmations from banks
- Obtaining confirmations of balances for the trade receivables and payables
- Assessment of the recognition of the sales revenue on an accrual basis
- Assessment of the calculation of provisions for discounts
- Critical review of invoice receipts in April 2018 and assessment of recognition of these expenses in the period incurred to ensure completeness of liabilities.

Review of disclosures in the notes and assessment of the management report

Phase IV: Overall assessment of audit results and reporting

Formation of the audit opinion on the basis of the overall assessment of audit results

Reporting in the audit report and the Independent Auditor's Report

Detailed oral presentation of audit results to management

We performed our audit in the months of March to July 2019, until July 5, 2019.

All explanations and evidence requested by us were provided. The management confirmed in writing that the accounting records, the annual financial statements and the management report are complete.

5 Findings on accounting and financial reporting

5.1 Accounting records and related documents

The Company's accounting records have been properly kept and maintained. The accounting records and related documents are properly authorized, sufficiently explained and filed in an orderly manner. Based on our findings, the accounting records and related documents comply with German legal requirements.

Based on our audit, we found that the organizational and technical measures taken by the Company are appropriate to ensure the security of the IT systems and accounting-related data processed.

5.2 Annual financial statements

The annual financial statements as of March 31, 2019, presented to us for audit, were properly derived from the Company's accounting records and related documents. The opening balance sheet figures were properly carried forward from prior year's annual financial statements. The German legal recognition, presentation and measurement requirements have been observed, in all material respects.

The balance sheet and income statement have been prepared, in all material respects, in accordance with the provisions of German commercial law applicable to business corporations, including the German Legally Required Accounting Principles. The notes to the financial statements include all legally required information.

The disclosure relief based on size provided by Section 288 (2) HGB has been correctly and partially applied.

5.3 Management report

The management report prepared by management, in all material respects, complies with German legal requirements.

6 Opinion on the overall presentation of the annual financial statements

6.1 Comments on overall presentation

The accounting policies applied to the annual financial statement items, in all material respects, comply with the requirements of German commercial law applicable to corporations. These are described in the notes to the annual financial statements (see Appendix 1.3 Section 2).

The exercise of accounting and valuation options as well as accounting judgments with regard to the following annual financial statement items has a material effect on the Company's assets, liabilities, financial position and financial performance:

Distribution licenses

In prior years the Company acquired two licenses for the sale of the active ingredients Aripiprazole and Pregabalin in Germany. Along with the direct license fees to the manufacturers, the fees for the approval of the medicines by the German Federal Institute for Drugs and Medical Devices [BfArM] were also recognized as incidental acquisition costs. In total, the historical cost for these two licenses amounted to KEUR 432 and was recognized in fixed assets. The licenses are amortized over the term of the contract; ten years for Aripiprazole and five years for Pregabalin.

Deferred tax assets

The option of recognizing deferred tax assets provided under Section 274a (1) sentence 2 HGB was utilized in the amount of KEUR 7.

Provision for discounts

The Company distributes its products via wholesalers who supply pharmacies. Revenue is recognized, according to the invoice amount, when the deliveries are sent to the wholesalers. Pharmaceutical discount agreements have been concluded with various health insurance funds; these agreements provide for certain medicines of the Company to be exclusively or partially exclusively supplied to customers of the health insurance fund concerned (generally relating to active ingredients). In return, the Company grants a discount on the selling price that is used to form the basis for the revenue recognition. In general, a considerable period of time passes between distribution to the wholesaler and delivery to the end customer.

At year end, the Company calculates a provision for discounts to be granted using the volumes delivered to the wholesalers and the average discount granted per packaging unit. The latter is determined based on a weighted average.

The discounts are deducted from revenue. At year-end, KEUR 36,346 was recognized in the balance sheet as provisions for discounts and revenue declined by KEUR 81,710 due to discounts.

The following transactions were carried out which had a material effect on the overall presentation of the annual financial statements:

The Company concluded a non-recourse factoring agreement with BNP Paribas Factor GmbH, Düsseldorf. BNP Paribas Factor GmbH purchases all outstanding trade receivables, which fulfill the requirements set forth under Section 2 of the agreement that has been concluded. In addition, BNP Paribas Factor GmbH assumes the del credere risk; accounts receivable management remains with the Company.

6.2 Conclusion on the overall presentation of the annual financial statements

Based on an overall consideration of the accounting policies and material transactions described above, we are of the opinion that the annual financial statements give a true and fair view of the assets, liabilities and financial position of the Company and of its financial performance in accordance with German Legally Required Accounting Principles.

7 Concluding remarks

This audit report has been prepared in accordance with the principles of Auditing Standard 450 (as amended), promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW).

We hereby confirm pursuant to Section 321 (4a) HGB that we have conducted our audit in accordance with the applicable independence regulations.

The Independent Auditor's Report is presented in Section 2.

Munich, July 5, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Rüger
Wirtschaftsprüfer
[German Public Auditor]

Argyakis
Wirtschaftsprüfer
[German Public Auditor]

Appendices

Appendix 1

Annual financial statements as of March 31, 2019 and management report

1.1 Balance sheet

1.2 Income statement

1.3 Notes to the financial statements

1.4 Management report

Balance sheet
as of
March 31, 2019

**Glenmark Arzneimittel GmbH
Gröbenzell**

ASSETS

	EUR	Financial year EUR	Prior year EUR
A. Fixed assets			
I. Intangible assets			
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets acquired for a consideration		141.481,00	220.235,00
II. Property, plant and equipment			
Other equipment, operating and office equipment		120.130,00	114.098,00
B. Current assets			
I. Inventories			
Merchandise		7.838.481,67	5.624.418,16
II. Receivables and other assets			
1. Trade receivables	125.471,01		1.684.526,37
2. Receivables from affiliated companies	39.236.304,07		33.217.248,89
3. Other assets	5.685.046,99	45.046.822,07	4.071.599,90
III. Cash and cash equivalents			
		12.049.595,52	16.083.868,11
C. Prepaid expenses			
		241.920,85	30.070,75
D. Deferred tax assets			
		6.823,86	2.832,25
		<hr/> 65.445.254,97	<hr/> 61.048.897,43 <hr/> <hr/>

EQUITY AND LIABILITIES

	EUR	Financial year EUR	Prior year EUR
A. Equity			
I. Subscribed capital		50.000,00	50.000,00
II. Capital reserve		1.293.500,00	1.293.500,00
III. Retained earnings		1.841.429,71	265.400,74
IV. Net income for the year		1.471.213,38	1.576.028,97
B. Provisions			
1. Tax provisions		592.810,65	699.000,00
2. Other provisions		37.367.921,85	36.869.934,99
C. Liabilities			
1. Trade payables	2.840.469,99		2.615.526,50
– thereof due within one year: EUR 2,840,469.99 (EUR 2,615,526.50)			
2. Liabilities to affiliated companies	1.018.222,54		882.750,60
– thereof due within one year: EUR 1,018,222.54 (EUR 882,750.60)			
3. Other liabilities	<u>18.969.686,85</u>	22.828.379,38	16.796.755,63
– thereof for taxes: EUR 925,960.58 (EUR 2,221,171.90)			
– thereof for social security: EUR 6,787.67 (EUR 7,345.74)			
– thereof due within one year: EUR 18,969,686.85 (EUR 16,796,755.63)			
		<hr/>	<hr/>
		65.445.254,97	61.048.897,43
		<hr/> <hr/>	<hr/> <hr/>

INCOME STATEMENT
for the period from
from April 1, 2018, to March 31, 2019

Glenmark Arzneimittel GmbH
Gröbenzell

	EUR	Financial year EUR	Prior year EUR
1. Revenue		38.017.841,81	30.338.367,14
2. Total operating income		38.017.841,81	30.338.367,14
3. Other operating income		91.879,37	99.673,04
4. Cost of materials			
a) Cost of raw materials, supplies and purchased goods		26.637.183,42	21.554.963,06
5. Personnel expenses			
a) Wages and salaries	2.424.396,77		2.211.402,78
b) Social security, pension and other benefits			
– thereof for pensions: EUR 240 (EUR 2,497.08)	<u>379.849,64</u>	2.804.246,41	334.618,87
6. Amortization and depreciation			
a) of intangible assets and property, plant and equipment		112.112,64	121.096,92
7. Other operating expenses		7.337.768,87	4.458.110,45
8. Other interest and similar income		953.421,74	492.882,18
– thereof from affiliated companies: EUR 953,421.74 (EUR 492,867.35)			
9. Interest and similar expenses		140.647,32	78.485,72
– thereof to affiliated companies: EUR 0.00 (EUR 0.00)			
10. Income taxes		558.981,90	594.771,59
– thereof expenses from additions to and release of deferred taxes			
EUR 0.00 (EUR 0.00)			
– thereof income from additions to and release of deferred taxes			
EUR 3,991.61 (EUR 868.41)			
11. Earnings after taxes		1.472.202,36	1.577.472,97
12. Other taxes		988,98	1.444,00
13. Net income for the year		<u>1.471.213,38</u>	<u>1.576.028,97</u>

Glenmark Arzneimittel GmbH, Gröbenzell

Notes to the financial statements for the financial year 2018/19

1. General information

The annual financial statements of Glenmark Arzneimittel GmbH, based in Gröbenzell (Munich commercial register, HRB 188342), were prepared in accordance with the provisions of the German Commercial Code [HGB]. The stated values of the prior-year figures were adopted unchanged. The income statement was prepared using the nature of expense method.

The relevant provisions of the German Limited Liability Companies Act [GmbHG] were also observed.

2. Accounting policies

The valuation of fixed assets is based on the assumption that the Company will continue as a going concern.

Items were recognized and valued in accordance with general recognition and valuation requirements.

Intangible assets acquired for a consideration were stated at cost less amortization based on useful lives of 3 years.

Property, plant and equipment were recognized at cost less depreciation based on useful lives of between 3 and 23 years.

Low-value assets as defined by Section 6 (2) of the German Income Tax Act [EStG] are written off in full in the year of acquisition.

All fixed assets are written down to the lower fair value where necessary.

Inventories relate to merchandise, which are recognized at cost. If the fair value of inventories is lower as of the balance sheet date, this value is stated.

Receivables and other assets are stated at nominal value, taking all foreseeable risks into account.

Cash and cash equivalents are stated at nominal value.

The Company used the option found in Section 274 (1) sentence 2 HGB and recognized deferred tax assets. Deferred tax assets were determined using the balance sheet item method (temporary concept).

Equity is stated at nominal value.

Tax provisions and other provisions take account of all identifiable risks and contingent liabilities and are stated in the full amount of their anticipated use. Where permitted under commercial law, the provisions were calculated in line with tax requirements.

Liabilities were recognized at their settlement amount.

The annual financial statements include items denominated in foreign currencies, which are translated to euro. Receivables and liabilities denominated in foreign currency are translated at the average spot exchange rate applicable on the reporting date.

3. Explanatory notes on individual items of the balance sheet

Statement of movements in fixed assets (gross) as of March 31, 2019

The classification of and movements in fixed assets are shown in the attached statement of movements in fixed assets.

Movements in fixed assets: property, plant and equipment – cost

	Cost	Additions	Disposals	Reclassifications	Cost
	Apr. 1, 2018				Mar. 31, 2019
	EUR	EUR	EUR	EUR	EUR
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets acquired for a	476,326.87				476,326.87
Intangible assets	476,326.87				476,326.87
II. Property, plant and equipment					
1. Other equipment, operating and office equipment	258,310.67	39,390.64			297,701.31
Property, plant and equipment	258,310.67	39,390.64			297,701.31
	734,637.54	39,390.64			774,028.18

Movements in fixed assets: property, plant and equipment – accumulated depreciation

	Accumulated amortization, depreciation and write- downs Apr. 1, 2018 EUR	Amortization, depreciation and write- downs in the financial year EUR	Disposals EUR	Reclassi- fications EUR	Accumulated amortization, depreciation and write- downs Mar. 31, 2019 EUR	Book value Mar. 31, 2018 EUR	Book value Mar. 31, 2019 EUR
I. Intangible assets							
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets acquired for a consideration	256,091.87	78,754.00			334,845.87	220,235.00	141,481.00
Intangible assets	256,091.87	78,754.00			334,845.87	220,235.00	141,481.00
II. Property, plant and equipment							
1. Other equipment, operating and office equipment	144,212.67	33,358.64			177,571.31	114,098.00	120,130.00
Property, plant and equipment	144,212.67	33,358.64			177,571.31	114,098.00	120,130.00
	400,304.54	112,112.64			512,417.18	334,333.00	261,611.00

Receivables and other assets

Receivables with a remaining term of more than one year of EUR 50,597.87 (PY: EUR 45,200.00) are recognized under other assets. All other receivables and other assets are due within one year.

Receivables from affiliated companies

As of the reporting date, current receivables from affiliated companies amount to EUR 39,236,304.07 (PY: EUR 33,217,248.89). As in the prior year, these largely relate to current receivables from a loan to a group company.

Deferred tax assets

Deferred taxes are measured with a company-specific tax rate of 27.375%.

The Company exercised the option of recognizing deferred taxes.

Deferred taxes relate to the difference between the calculation of the provision for holidays for financial reporting and tax purposes.

Restriction on distribution

A total amount of EUR 6,823.86 is subject to a restriction on distribution pursuant to Section 268 (8) HGB. This can be attributed in full to the recognition of deferred tax assets.

Provisions

	Mar. 31, 2019	Mar. 31, 2018
	EUR	EUR
Provisions for income taxes	592,810.65	699,000.00
Provision for personnel expenses	479,969.12	357,760.66
Provision for adherence to retention periods	38,976.00	38,976.00
Other provisions	432,616.40	84,900.00
Provision for discounts under Section 130a of the German Social Security Code V [SGB V]	36,346,360.33	36,328,298.33
Provision for the preparation and audit of financial statements	70,000.00	60,000.00

Liabilities to affiliated companies

Liabilities to affiliated companies amounted to EUR 1,018,222.54 (PY: EUR 882,750.60) as of the reporting date. These relate solely to trade payables.

4. Other disclosures

Parent company

Glenmark Arzneimittel GmbH is included in the consolidated financial statements of Glenmark Pharmaceuticals Ltd., Mumbai, India, which prepares the consolidated financial statements for the smallest and largest group of consolidated companies. The consolidated financial statements are available at www.glenmarkpharma.com.

Revenue recognition

Revenue is recognized when the risks and rewards of ownership are transferred to the purchaser. The transfer of the risks and rewards occurs when the goods are dispatched to the purchaser.

Employees

The Company had an average of 29.75 (PY: 27) employees in the financial year.

Managing directors' remuneration

Management's total remuneration is not disclosed as the exemption clause of Section 286 (4) HGB has been applied, as only one managing director receives remuneration from the Company.

Auditor's fee

Total fees paid to the auditor for the financial year were EUR 32,500,00.

This fee consists of EUR 32.500 for audit services,.

Appropriation of earnings

The financial year 2018/2019 closed with net income for the year of EUR 1,471,213.38. This was added to the retained earnings brought forward from the prior year of EUR 1,841,429.71, resulting in an accumulated profit of EUR 3,312,643.09. The management proposes to carry forward the accumulated profit to the following year.

Other financial obligations

There were no off-balance sheet transactions according to Section 285 (3) and (3a) HGB that would be material for the evaluation of the Company's financial performance.

In addition to the liabilities shown in the balance sheet, other financial obligations amount to KEUR 346.

These are broken down as follows:

- KEUR 42 for vehicle leasing
- KEUR 304 rental obligations for business premises

Events after the reporting period

There were no significant events after the end of the financial year under review that were not taken into account in the income statement or in the balance sheet.

Managing Directors:

Last name	First name	Professional occupation
Wilhelm	Barbara	Dipl. Kauffrau [business studies graduate], Chairperson/Managing Director
Bourne	Oliver	Lawyer
Gupta	Achin	MBA

Gröbenzell, July 5, 2019

Barbara Wilhelm

Oliver Bourne

Achin Gupta

Glenmark Arzneimittel GmbH, Gröbenzell

Management report for financial year 2018/2019

from April 1, 2018 to March 31, 2019

1. Status of the Company

1.1 Business model and corporate structure

Glenmark Pharmaceuticals Ltd. is a research-based, global pharmaceutical company based in Mumbai, India. The company focuses on the discovery of innovative chemical and biological molecules. Glenmark also offers a broad portfolio of generic medicines. Glenmark employs around 11,000 employees across over 80 countries and operates 17 manufacturing facilities and 5 cutting-edge research and development centers (one of which is located in Neuchâtel in Switzerland). Glenmark Pharmaceuticals Ltd. ranks among the top 80 pharma and biotech companies globally.

Since being set up in 2010, the German subsidiary Glenmark Arzneimittel GmbH, based in Gröbenzell near Munich, has established itself as one of the top 20 pharma companies in the German generics segments with its high-quality medicines. Glenmark's portfolio includes many indication groups, with a focus on the central nervous system (CNS), cardiovascular system and respiratory system. Glenmark is a contractual partner to the statutory health insurance funds in relation to numerous products, contributing to the provision of accessible and affordable medicines. As a distribution and trading company, Glenmark Arzneimittel GmbH does not engage in any research and development activities.

1.2 Management system

The Company is managed on the basis of a budget that has been coordinated with the parent company. In addition to the income statement and balance sheet, other key figures are included in the monthly reporting package submitted to the parent company.

Target/actual comparisons and deviation analyses are performed based on these values.

The main financial performance indicators are revenue and EBIT.

2. Market and sector situation

2.1 Overall economic development

The German economy is in good shape and is maintaining its solid and steady rate of growth. In its spring forecast 2019, the German federal government anticipates a 0.5% increase in real GDP. Real GDP rose by 1.4% in 2018. (Source: German Federal Ministry for Economic Affairs and Energy [BMWi], spring forecast 2019)

2.2 Sector development

Revenue in the overall German generics market amounted to a EUR 5.60 billion in the year under review (+2.5% compared to reporting year 2017/2018), based on manufacturer's delivery prices without deducting compulsory manufacturer discounts and without taking patient contributions and returns from discount agreements into account (Data: INSIGHT Health, Jan. 2019).

Among pharma companies in the German generics segment, Glenmark Arzneimittel GmbH was at number 14 ranked by sales volume in the reporting year (Data: INSIGHT Health, Jan. 2019).

3. Business development

Assets, liabilities, financial performance and financial position in financial year 2018/2019 are discussed in detail in the following section.

3.1 Assets and liabilities in financial year 2018/2019

Glenmark Arzneimittel GmbH's total assets increased 7.20% to EUR 65.45 million compared to the prior year (PY: EUR 61.05 million).

There was very little change to fixed assets.

Inventories increased by EUR 2.21 million over the prior year to EUR 7.84 million. This increase is mainly due to increased sales. In order to safeguard the Company's ability to deliver we anticipate that there will be a further increase to inventories in the first quarter of the coming financial year.

Overall receivables and other assets increased by EUR 6.07 million. This change largely results from the increase of a business loan to a group company in the amount of EUR 4.5 million (total amount of loan EUR 37.50 million). As of the reporting date trade receivables declined year on year by EUR 1.56 million, this decrease is largely a result of the conclusion of factoring agreements during the reporting period. Other assets increased by EUR 1.61 million.

Cash and cash equivalents fell by EUR 4.03 million to EUR 12.05 million compared to the prior year. The decline in cash and cash equivalents is attributable to the increase in a business loan to a group company in the reporting period.

There were only very minor changes in the remaining balance sheet items.

On the liabilities side, equity rose EUR 1.47 million over the prior year to EUR 4.66 million.

At the same time there was a EUR 2.93 million increase in provisions and liabilities, which is mainly attributable to higher liabilities relating to discounts for health insurance funds of EUR 3.47 million.

The other provisions rose by EUR 0.50 million to a total of EUR 37.37 million. The rise in provisions is mainly connected to the discounts awarded as part of invitations to tender issued by health insurance funds. This increase is related to many newly concluded discount agreements, both for the existing portfolio and the numerous new products.

3.2 Financial performance in financial year 2018/2019

Glenmark Arzneimittel GmbH reported a decline in EBIT of EUR 0.54 million in the year under review. The decline is mainly due to the increase in marketing expenses of EUR 1.08 million to develop new target groups. Revenue from operating activities increased by 25.31% over the prior year to EUR 38.02 million. The rise in revenue materialized from the increase in market share in Germany. The cost of materials increased by 23.58%.

Personnel expenses increased by 10.14% over the prior year and the total amount of amortization and depreciation remained almost constant over the prior year, with a decline of 7.41%.

Overall EBIT equaled EUR 1.22 million. In addition, there was a net interest income of EUR 0.81 million, which is mainly down to the interest on the business loan granted to a group company.

3.3 Financial position in financial year 2018/19

The Company finances itself predominantly from cash flows from operating activities. In this regard, the Company's financial position developed favorably in financial year 2018/19. No external financing takes place, therefore no credit lines have been established with banks. Although inventories increased by EUR 2.21 million over the prior year and a loan to a group company rose by EUR 4.50 million, cash and cash equivalents declined by just EUR 4.03 million to EUR 12.05 million over the prior year. The increase in cash and cash equivalents is due to the positive business development.

4. Management's overall assessment of financial year 2018/2019

The prior-year forecast assumed an increase in revenue of 10% and a constant EBIT. Revenue growth of 25.31% over the prior year far exceeded the forecast. EBIT was slightly below the prior year's figure, which was primarily due to additional marketing expenses to

develop and expand the target groups. The management of Glenmark Arzneimittel GmbH considers financial year 2018/2019 to be a successful one.

Cost pressure in the field of pharmaceutical generics consistently remains high and is influenced by the discount agreements with health insurance funds. Glenmark Arzneimittel GmbH has achieved its objective to retain position as one of the top 20 pharma companies in the generics segment. In addition to new discount agreements for the existing portfolio, the portfolio was further diversified through new preparations.

Besides the main segment of neurology, the pain and infectiology segments were also further expanded in the past financial year and new preparations were successfully placed on the market. The introduction of new products in these business areas, coupled with targeted marketing measures, will ensure steady growth in the future.

In this regard, the discount agreements with statutory health insurance funds are also of great importance for Glenmark Arzneimittel GmbH. In relation to the overall portfolio, the Company has affirmed the successes of the prior years and expanded on them further.

The further differentiation of the portfolio combined with timely marketing measures constantly improves Glenmark Arzneimittel GmbH's presence with pharmacies and doctors. Management considers this a key basis for the Company to grow steadily in future.

No events occurred after the balance sheet date that were of significant importance for the Company's assets, liabilities, financial position and financial performance.

5. Risks and opportunities

5.1 Opportunities

Glenmark Arzneimittel GmbH's business activities are influenced mainly by invitations to tender issued by the statutory health insurance funds and the associated market structure.

As the manufacturing of a large part of the portfolio is procured from production facilities belonging to the group, the Company has a favorable cost structure, which will also ensure growth and competitiveness for the future.

Glenmark Arzneimittel GmbH will continue to concentrate on concluding discount agreements in the future and is gradually exploiting new target groups.

The planned expansion of the portfolio follows a strategic concept, which is driven by the Glenmark group both in Europe and globally.

5.2 Risks

Procurement risks

Glenmark Arzneimittel GmbH specializes in the distribution of finished medicinal products; without any manufacturing activities of its own, it is dependent on the reliability of suppliers. Through continuous supervision, any difficulties with suppliers can be avoided to the greatest extent possible. To this aim, the specialist departments keep in regular contact with their suppliers. Nevertheless, unexpected incidents out of our control can lead to a partial or total failure in the supply of merchandise, or to delays. This represents a risk for Glenmark Arzneimittel GmbH. This risk is considered to be medium due to the continuous supervision.

Price risks

It is very likely that further significant price changes will occur, whether due to statutory requirements or new providers entering the market. In relation to our new products, we expect the list prices to drop considerably in the coming years. We also expect quotation prices under discount agreements to fall further. To counteract these risks, we are broadening and diversifying the portfolio. This risk is considered medium.

Cost risks

Cost of materials is the main cost element for Glenmark Arzneimittel GmbH. In this regard, a distinction must be drawn between backwardly integrated products from group manufacturing facilities and products from external suppliers. For manufacturing within the group, it is assumed that commodity prices, and therefore also the market prices of the finished goods, will remain at current levels or sink even further. For products from external suppliers, we have concluded long-term supply agreements to safeguard procurement costs. This risk is considered low.

Overall conclusion on the risk situation

Accounting for measures taken to manage risks, management did not identify any risks in the year under review that individually or collectively pose a threat to the Company's assets, liabilities, financial position and financial performance in such a way as to affect the Company's ability to continue as a going concern. Risks that are as yet unknown or considered immaterial could gain in importance should there be a change in general conditions. The Company has set up organizational conditions for obtaining knowledge on emerging changes to the risk situation early, and to react adequately to such changes.

6. Outlook for financial year 2019/2020

The high price pressure due to the discount agreements with health insurance funds increases the importance of diversifying the portfolio further and exploring new therapeutic target groups. This requires a selective approach coupled with targeted marketing measures. This will be a main focus for coming financial years. The aim is to further expand our market share and to establish our company permanently as one of the top 15 pharma companies in the German generics segment.

In the current financial year, we already successfully participated in tender processes for discount agreements with health insurance funds. This includes the aim of setting up and expanding the market shares, as well as strategic considerations of the entire Glenmark group.

Through the market introduction of new products as well as an expansion of the market share for the existing portfolio and further expansion of internal structures, management expects a positive overall result in the coming year.

On the basis of the factors described, the Company expects a 5% rise in revenue and an unchanged EBIT for financial year 2019/20.

Due to the forecast character of all statements that relate to the future, actual results may differ significantly from expected developments.

Appendix 2
General Engagement
Terms

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.