

# Basics GmbH, Leverkusen

## MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2010

### General

Basics GmbH is engaged mainly in the sale of generics of the Indian Ranbaxy Group through which it is included in the Japanese Daiichi Sankyo Group.

With its product portfolio the Company operates in the German, Austrian and Swiss healthcare markets, focussing on generic products in the pharmaceutical market. Principal customers are wholesale traders and pharmacies.

### BUSINESS AND GENERAL CONDITIONS

#### The market for generics in Germany

So-called rebate contracts have been firmly established in the generic segment (generics, former originals with expired patents) of the German pharmaceutical market. In the period from January to October of this year the market share of generic medicines covered by rebate contracts is 58%. Based on the law on the restructuring of the pharmaceutical market (AMNOG), health insurance funds rely on rebate contracts also for the year 2011. Quelle: IMS Contract Monitor®/ [www.imshealth.de](http://www.imshealth.de)

Significant changes in the generic drugs market were caused by statutory health insurance funds in Germany which invited tenders for important generics. Now the consideration of a manufacturer in a tendering procedure is a decisive factor for securing a substantial market share and sales in the German generic drugs market.

Price competition was further intensified by calls for tenders. Moreover, an aggravation of this situation is attributable to the continued existence of the possibility of exemption from additional payment and the further reduction of the fixed amount of individual, partially significant products.

The top 20 generic drug manufacturers of prescription medicines in Germany are set out in the table below:

Values		Total sales for 2010 (ApU) -	Total sales for 2010 (ApU) - '% versus prior year
1	Manufacturer Hexal	938,552,365	-18,65%
2	Ratiopharm	731,065,404	-11,71%
3	1A Pharma	389,655,481	29,37%
4	Aliud	282,248,437	-2,90%
5	Winthrop	184,427,879	53,18%
6	Stadapharm	181,764,718	-0,08%
7	Betapharm	154,206,885	-10,96%
8	CT Arzneimittel	129,547,798	12,28%
9	Mylan dura	121,307,602	-7,30%
10	Sandoz	103,865,155	-18,00%
11	Neuraxpharm	81,351,406	3,39%
12	Teva	76,460,267	45,80%
13	Heumann	66,265,467	59,97%
14	Actavis	58,544,523	7,27%
15	ABZ Pharma	53,767,394	9,79%
16	TAD	40,415,373	13,34%
17	biomo	33,614,807	13,67%
18	Basics	31,062,562	111,85%
19	KSK	30,885,906	83,54%
20	Chiesi	25,408,431	4,72%

Source: InsightHealth MAT 12/2010  
ApU = Sales price of pharmaceutical companies

Consequently, the German generic drug market was again determined mainly by the top three groups, i.e. Hexal/Sandoz/1A, Ratiopharm/CT/ABZ, Stada/Aliud which have won a market share of 76% related to the market of the top 20 generic companies. Despite this fact, the above upheaval in market shares, primarily caused by calls for tender, is reflected in the change in market shares.

During the year 2010, we were awarded a large number of contracts from tenders solicited by various health insurance companies. Our new customers also include health insurance companies such as Spektrum K, Techniker Krankenkassen, DAK and GWQ.

## **Personnel**

The number of persons employed by the Company decreased from 29 to 28 during the year (as of 31 December 2010).

## **RESULTS OF OPERATIONS**

In the year 2010, we could achieve an increase in sales by EUR 2.0million (In INR 120.5 Million ) (9%) to EUR 24.5 million (In INR 1475.9).

This development is attributable to the rise in the number of rebate contracts awarded by health insurance companies. A slight increase was registered in the supply business.

The gross profit (sales less cost of materials) went up by EUR 1.4 million [ IN INR 84.3 million], representing an improvement of the gross profit margin from 22% to 26%.

The increase in amortisation by EUR 0.2 million (In INR 12.00 million] is caused by an unscheduled writedown on product licenses which cannot be used and by a write-down on a product licence acquired in the 3<sup>rd</sup> quarter of the year 2009 and recognised for the first time for a 12 month period.

Other operating expenses sank by 9% compared to prior year.

Cost reductions were realised particularly in the area of administration. Furthermore, donations to charitable organisations nearly halved compared to prior year.

On the other side, sales and marketing expenses rose by 19%, as a result of an intensification of marketing activities and the higher logistics costs incurred in connection with the increase in the volume realised under rebate contracts.

With an operating result of EUR 1.1 million (In INR 66.3 million) {prior year: -EUR 0.2 million(In INR 12.5 Million )} and a net income of EUR 0.8 Million (In INR 48.2 million] for the financial year {prior year: -EUR 0.2 Million ( In INR 12 million] , the earnings situation again shows a clearly positive trend.

## **FINANCIAL POSITION AND NET ASSETS**

Long term assets decreased by EUR 0.9 million (In Rs. 53.9 Million) due to the depreciation charged on fixed assets.

Short and medium term assets exceed by EUR 10.7 Million (In INR 640.7) million prior year's level. The main reasons for this situation are (1) the increase in cash which occurred as a result of the delay in the offset of rebates by the health insurance funds and (2) the rise in receivables.

The rebates not yet charged by the health insurance funds at the balance sheet date and higher other outstanding invoices are reflected in the other provisions which increased by EUR 8.2 (In Rs. 491) million as against the year 2009.

As a material factor of the reporting year, the rebate business with the health insurance funds finally led to a situation in which the cash flow from operating activities rose by EUR 8.5 Million (In INR 509 million] to EUR 9.9 Million (In INR 592.8 million], compared to the year 2009.

Based on total assets higher by EUR 9.9 Million (In INR 592.8 million], there was a reduction in the equity ratio from 66% to 43%.

## **EVENTS OF SPECIAL IMPORTANCE**

After completion of the financial year, there have been no events of special importance impacting on the present financial statements.

## **OPPORTUNITIES AND RISKS**

The law on the restructuring of the pharmaceutical market (AMNOG) took effect on 1 January 2011. After the Federal Parliament (Bundestag) had adopted the draft law on 11 November 2010, the draft was passed by the Federal Council (Bundesrat) on 12 December 2010. The entry into force of this law will result in a large number of changes in the pharmaceutical sector.

Following aspects with an impact on the generic market are:

- Introduction of further competitive regulations, especially in respect of antitrust law standards

- The obligation of pharmacists to sell more favourable products, especially where related to the same field of application and pack sizes

- Additional cost regulation

Generally, the generic market will clearly be dominated by tendering procedures with a further decrease in margins. Through the new wholesale rebate of 0.85%, there will also be a lower purchase price for pharmacists for the year 2011. The cost-benefit assessment (as provided for in the new law) of innovative products is likely to involve a lower price level for prescription medicines.

In the opinion of Basics, its successful participation in various tenders provides a favourable basis for the next financial years.

As in prior year, the Company will continue to make every effort to expand its range of products. For this purpose, European approval procedures were initiated to extend the portfolio of pharmaceutical articles produced in India. There are various approval procedures enabling products to be launched in 2011 and thereafter.

Lean structures and a high cost efficiency in all operations are of paramount importance for Basics.

Customer care is secured by a further professionalization of the customer service team. Organisational and technical processes relating to customers will be further optimised with the aim to strengthen customer loyalty.

## **OUTLOOK**

Participation in all important future tenders submitted to health insurance companies is guaranteed along with the intensification and extension of existing contacts with smaller and larger health insurance companies.

In the light of the above facts, the management expects a positive trend for the next two years with the realisation of profits for this period. However, it is aware that the actual results may differ from those planned. The development of sales will depend significantly on the conclusion of further rebate contracts with health insurance funds and on the expansion of the supply business.

Leverkusen, 15 March 2011

Board of Management

SD/-  
Sabine Radl



TRANSLATION  
Audit Report

**Financial Statements  
as of 31 December 2010  
and Management Report**

**Basics GmbH**  
Leverkusen

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 derive from the translation.

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## 1 Audit engagement

At the shareholders' meeting on 30 June 2010 of

**Basics GmbH, Leverkusen,**

--hereinafter also referred to as the "Company"--

we were elected auditors for the financial year 2009. Accordingly, the Company's management engaged us to audit the financial statements for the year ended 31 December 2010, including the Company's accounting records, and the management report.

This audit report has been prepared in accordance with the principles in IDW Auditing Standard 450.

We confirm that we have conducted our audit in compliance with the applicable independence regulations in accordance with § 321 (4a) of the German Commercial Code (HGB).

The terms governing this engagement are set out in the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] in the version dated 1 January 2002, which are attached to this report as appendix 7. Our liability is determined according to item No. 9 of the General Engagement Terms. Our liability towards third parties is defined in items No. 1 (2) and No. 9 of the General Engagement Terms.

## 2 Critical evaluation of the assessment of the Company's position by management

### 2.1 Economic situation and trend of business operations

Concerning the key statements on the Company's economic position and the trend of the business operations made by the Company's management, we state that:

**A sales level of EUR 24.5 million was achieved despite hard price competition in the sector of generics.**

During 2010, sales rose by EUR 2.0 (In INR 120.5) million to EUR 24.5 (In INR 1475.9 ) million (+9.1%). The Company realised its sales primarily in Germany. These sales are significantly affected by rebate contracts with health insurance companies. Domestic gross sales -prior to the granting of rebates--substantially improved (+76.3%). The hard price competition on the market of generics and new rebate contracts concluded with health insurance companies led to a high volume of rebates granted. These factors caused an increase in sales in the financial year 2010.

**The gross profit margin increased by 22% to 26%.**

The conclusion of new rebate contracts had the effect that there was a jump in rebates granted in 2010. The Company's gross profit depends mainly on the transfer prices agreed with RANBAXY and on the rebates negotiated with statutory health insurance funds. As the cost of materials rose less strongly than the sales, the gross profit margin increased by 4 percentage points.

**Long and medium term assets rose by EUR 10.7 (In INR 640.7) million, particularly thanks to the higher cash level in 2010.**

The high level of rebates granted was charged to the health insurance funds with a considerable delay owing to their reporting practice. At the balance sheet date, this delay involved a strong increase in cash by EUR 9.8 (In INR 586.8) million to EUR 12.0 (In INR Rs. 718.6) million and in the provisions for outstanding invoices by EUR 8.2 (In INR Rs.491.0) million to EUR 11.1 (In INR Rs.664.7) million. Furthermore, trade receivables went up because of the rise in sales by EUR 1.4 (In INR 83.8) million (+44.8%). A reverse effect, however, had the reduction in receivables from affiliated companies by EUR 0.8 million [ IN INR 4.79 million].

## **2.2 Future development and associated significant opportunities and risks**

Concerning the key statements on the Company's future development and the associated significant opportunities and risks made by the Company's management, we state that:

### **A decrease in the Company's gross profit margin must be expected for the financial year 2010.**

A continued intensification of competition in the health care market is foreseeable with further price cuts in the sale of generics, also as a consequence of the entry into force of the law on the restructuring of the pharmaceutical market (AMNOG) .

### **In extending its range of products and in creating lean structures with high cost efficiency the Company reacted to the new conditions.**

Basics GmbH depends particularly on obtaining the approval for the sale of its products. For this reason, the Company made efforts to obtain further national and international approvals enabling it considerably to improve the basis for the placement of its products. In 2010, 13 new products were approved.

A further important factor in the future will consist in the Company's ability to be successful in tendering procedures organised by health insurance companies. For this purpose, the management observes the market to obtain information on relevant calls for tenders and systematically builds up a network of contacts with health insurers for the maintenance of good relations. In 2010, the Company participated in a number of tenders.

The Company will maintain its lean structures with high cost efficiency in all operating segments to ensure its future competitiveness.

## **2.3 Concluding statement**

In our opinion the management report as a whole presents a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Please refer to Appendices 5 and 6 for the Company's business profile and legal status.

## 3 Performance of the audit

### 3.1 Scope of the audit

We have audited the financial statements, including the accounting records, and the management report of Basics GmbH, Leverkusen, for the year ended 31 December 2010. The accounting and the preparation of the financial statements in accordance with the provisions of the German Commercial Code as well as explanations and evidence provided to us are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit, taking into account the accounting records and the explanations and evidence provided to us.

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

### 3.2 Nature and scope of the audit procedures

We conducted our audit of the annual financial statements in accordance with § 316 et seq. German Commercial Code (HGB) and the German generally accepted auditing standards promulgated by the Institut der Wirtschaftsprüfer (IDW; German Institute of Public Accountants). These standards require that we plan and perform the audit such that reasonable assurance is obtained that misstatements materially affecting the presentation of the net assets, financial position and results of operations, taking into account generally accepted accounting principles, in the financial statements are detected. The evidence supporting the disclosures in the books and records, the financial statements and the management report are examined on a test basis within the framework of the audit. The audit includes assessing the recognition, measurement and classification principles applied and significant estimates made by the Company's management as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Based on a risk- and system-oriented audit approach we started by formulating an audit strategy as part of our audit planning.



The risk analysis required for this is based on

our understanding of the Company, its economic environment, and its material goals and strategies,

our understanding of the related business risks which can result in material misstatements in the financial statements,

analytical audit procedures for the preliminary assessment of the Company's economic situation,

an assessment of the accounting methods selected and applied,

our understanding of the measurement and control of the Company's economic success, as well as

an assessment of the Company's internal control system and risk management to the extent relevant to the audit of the financial statements.

We based our assessment of the risk of material misstatements in the financial statements or the management report on risks related to both the financial statements as a whole and the information in the financial statements, i.e. to the presentation of individual types of transactions and individual account balances and disclosures. This procedure at the same time served the purpose of identifying material risks requiring to be dealt with in particular during the audit.

As a result of this, individual audit objectives have been identified based on the assessment of risks and a corresponding audit program has been developed. Besides the critical audit areas, the audit approach and the nature and scope of our audit procedures have been defined in this audit program for each audit objective, which also includes the audit timing and the staff requirements.

As a result of the risk assessment process as well as the determination of our audit strategy and the audit objectives we determined the following critical audit areas:

Existence and measurement of merchandise,

Existence and measurement of trade receivables,

Completeness of other provisions.

The audit procedures performed to obtain audit evidence consisted mainly of tests of details and, on a limited scale, of analytical audit procedures.



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In performing tests of details, we requested confirmations from the Company's legal counsel and credit institutions as well as, on a sample basis, confirmations from customers and suppliers. On the basis of our knowledge of the accounting-related internal controls and of the type and scope of the transactions to be assessed, we determined either random (accounts receivable) or specified samples (accounts payable).

The audit procedures carried out for the audit of the management report included examining whether the management report is in compliance with the financial statements and the knowledge gained during our audit and whether the management report provides a true and fair view of the Company's position. Furthermore we examined whether the management report correctly presents the opportunities and risks of the Company's future development.

Our audit was carried out (with interruptions) in January to March 2011 until 15 March 2011.

All information and substantiating documentation requested by us have been provided. Management has supplied us with a letter of representation confirming the completeness of the accounting records, the annual financial statements and the management report.

## **4 Findings concerning the financial reporting of the Company**

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

The Company's accounting records are properly maintained. The accounting documents are properly authorized, sufficiently explained and filed in an orderly manner. Based on our findings, the accounting records and further documents audited comply with legal regulations.

Based on our audit, we found that the measures taken by the Company to ensure the security of the accounting-relevant data were appropriate.

### **4.2 Financial statements**

The financial statements as of 31 December 2010, submitted to us for audit, have been properly derived from the Company's accounting books and records and other records audited. The opening balance sheet figures were properly carried forward from the prior year's financial statements. The legal regulations regarding recognition, disclosure and measurement have been complied with

The balance sheet and the income statement have been prepared in accordance with the provisions of the German Commercial Code relating to the accounting of limited liability companies including generally accepted accounting principles. The notes to the financial statements include all information required.

The Company used the protective clause as per § 286, para. 4 HGB correctly.

### **4.3 Management report**

The management report complies with the legal regulations. It is consistent with the annual financial statements and the information obtained by us during our audit. Overall, it provides a suitable understanding of the Company's position. Our audit led to the result that the significant opportunities and risks of future development have been adequately presented in the management report and that the disclosures required by § 289, para. 2 HGB are complete and correct.

## 5 Comments on the overall fair presentation of the financial statements

### 5.1 Effect of BilMoG (Law Modernising Accounting, Reporting and Auditing)

As set out in § 321 (2) sentence 3 of HGB, the audit report must provide information on whether the financial statements give a true and fair view of the Company's assets, financial position and results of operations in accordance with the principles of proper accounting. § 321 (2) sentence 4 of HGB also requires a description of the measurement bases and their changes. Generally, it is necessary to report only on the measurement bases for which the Company's legal representatives take discretionary decisions. In the year of conversion this applies particularly to the exercise of the option to maintain and take on carrying amounts according to Article 67 of the EGHGB (Introductory Law to German Commercial Code).

BilMoG regulations have entailed a change in a large number of accounting policies. Consequently, the obligation to apply the principle of consistency (§ 252, para. 1, no. 6 HGB) and to present information on a consistent basis (§ 265 para. 1 HGB), including the comments in the notes (§ 284 Para. 2 no. 3 HGB), has been suspended by reason of Article 67 (8) of EGHGB.

In accordance with Article 66 para. 3 sentence 1 of EGHGB, the Company applies the accounting policies as amended by BilMoG for the first time in the reporting year. On the whole, however, this did not impact on the presentation of the Company's assets, financial position and results of operations.

The Company judged the effect of BilMoG as of 1 January 2010 and finally concluded that no adjustments were required.

### 5.2 Significant measurement principles

Measurement principles are described in the notes to the financial statements (appendix 3). They have been applied largely consistently with prior year. Besides the exercise of the accounting policy options, the measurement principles also include assumptions on value-determining components. The measurement of assets and liabilities requires the assessment of future developments associated with risks and uncertainties. This judgement must be exercised by the persons in charge of proper accounting. The auditor controls only the plausibility of the exercise of judgement.



The measurement principles and exercise of judgement which we consider to be material to the financial statements are presented below:

Acquired concessions, industrial and similar rights and assets, and licenses in such rights and assets relate mainly to licenses for drugs sold and the right to use the trade name "Basics". The license acquired in 2009 at EUR 2.36 million [ IN INR 141.3 million] for the product Veratide is amortised over the expected useful live of 13 years, using the straight-line method. The amortisation of the right to use the trade name "Basics" is charged on a straight-line basis over a useful life of 15 years.

The goodwill results from the acquisition of all rights, claims and shares of the "Basics" business from Bayer Vital GmbH & Co. KG in the financial year 2000. Since that date amortisation has been calculated on a straight-line basis over a useful life of 15 years based on the related tax rules.

Write-downs of EUR 546 thousand [ IN INR 32,891.6] (prior year: EUR 909 thousand [ IN INR 54,759] ) were made in respect of merchandise to take account of price and obsolescence risks.

Other provisions have been recognised for all discernible risks and contingent liabilities at an amount which is required in the judgement of a reasonable businessman.

### **5.3 Overall conclusions of the fair presentation of the financial statements**

The Company exercised the accounting policy options affecting its financial statements as of 31 December 2010 largely consistently with prior year.

Based on an overall consideration of the measurement bases and accounting-related financial measures described above, we are of the opinion that the financial statements provide a true and fair view of the Company's net assets, financial position and results of operations, taking into account generally accepted accounting principles.



## 6 Auditor's Report

We have issued the following unqualified auditor's report:

“Auditor's report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Basics GmbH, Leverkusen, for the financial year from 1 January to 31 December 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [“Handelsgesetzbuch“: “German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.



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In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of Basics GmbH, Leverkusen, in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and, as a whole, provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.“

Düsseldorf, 15 March 2011

SD/-  
KPMG AG  
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

SD/-  
Weichert  
Wirtschaftsprüfer  
(German Public Auditor)

SD/-  
Körwer  
Wirtschaftsprüfer  
(German Public Auditor)

## Appendices

**Basics GmbH, Leverkusen**  
**Balance sheet as of 31 December 2010**

**ASSETS**

	<b>31.12.2010</b>		<b>31.12.2009</b>	
	€	In Rs	€	In Rs.
<b>A. Fixed assets</b>				
I. Intangible assets				
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	2,773,422.33	166,073,193.41	3,131,395.62	187,508,719.76
2. Goodwill	1,624,908.98	97,299,938.92	1,999,887.97	119,753,770.66
3. Prepayments	6,000.00	359,281.44	157,618.15	9,438,212.57
	<u>4,404,331.31</u>	<u>263,732,413.77</u>	<u>5,288,901.74</u>	<u>316,700,702.99</u>
II. Tangible assets				
Operating and office equipment	51,912.65	3,108,541.92	52,701.50	3,155,778.44
	<u>4,456,243.96</u>	<u>266,840,955.69</u>	<u>5,341,603.24</u>	<u>319,856,481.44</u>
<b>B. Current assets</b>				
I. Inventories				
Merchandise	2,299,961.81	137,722,264.07	2,152,029.14	128,864,020.36
	<u>2,299,961.81</u>	<u>137,722,264.07</u>	<u>2,152,029.14</u>	<u>128,864,020.36</u>
II. Receivables and other assets				
1. Trade receivables	4,545,436.95	272,181,853.29	3,138,954.07	187,961,321.56
2. Receivables from affiliated companies	237,168.85	14,201,727.54	1,012,932.28	60,654,627.54
3. Other assets	499,323.04	29,899,583.23	407,424.36	24,396,668.26
	<u>5,281,928.84</u>	<u>316,283,164.07</u>	<u>4,559,310.71</u>	<u>273,012,617.37</u>
III. Cash-in-hand, bank balances				
	12,040,690.88	720,999,453.89	2,210,094.42	132,340,983.23
	<u>19,622,581.53</u>	<u>1,175,004,882.04</u>	<u>8,921,434.27</u>	<u>534,217,620.96</u>
<b>C. Prepaid expenses</b>				
	55,650.18	3,332,346.11	13,748.39	823,256.89
	<u>55,650.18</u>	<u>3,332,346.11</u>	<u>13,748.39</u>	<u>823,256.89</u>
	<u>24,134,475.67</u>	<u>1,445,178,183.83</u>	<u>14,276,785.90</u>	<u>854,897,359.28</u>

## LIABILITIES AND SHAREHOLDERS' EQUITY

	31.12.2010		31.12.2009	
	€	In Rs.	€	In Rs.
<b>A. Equity</b>				
I. Subscribed capital	4,875,000.00	291,916,167.66	4,875,000.00	291,916,167.66
II. Capital reserves	2,500,000.00	149,700,598.80	2,500,000.00	149,700,598.80
III. Retained profits brought forward	2,075,133.98	124,259,519.76	2,281,010.33	136,587,444.91
IV. Net income/net income for the financial year	832,602.46	49,856,434.73	(205,876.35)	(12,327,925.15)
	<u>10,282,736.44</u>	<u>615,732,720.96</u>	<u>9,450,133.98</u>	<u>565,876,286.23</u>
<b>B. Provisions</b>				
1. Provisions for taxes	151,054.00	9,045,149.70	-	-
2. Other provisions	<u>11,323,172.25</u>	<u>678,034,266.47</u>	<u>3,138,023.54</u>	<u>187,905,601.20</u>
	<u>11,474,226.25</u>	<u>687,079,416.17</u>	<u>3,138,023.54</u>	<u>187,905,601.20</u>
<b>C. Liabilities</b>				
1. Payments received on account of orders	-	-	26,250.00	1,571,856.29
2. Trade payables	1,068,565.37	63,985,950.30	536,522.51	32,127,096.41
3. Liabilities to affiliated companies	1,268,710.42	75,970,683.83	497,311.85	29,779,152.69
4. Other liabilities	40,237.19	2,409,412.57	628,544.02	37,637,366.47
- of which taxes: €29,695.58 (prior year: €622,093.82) - - of which relating to social security: €3,768.47 (prior year: €3,952.56) -				
	<u>2,377,512.98</u>	<u>142,366,046.71</u>	<u>1,688,628.38</u>	<u>101,115,471.86</u>
	<u>24,134,475.67</u>	<u>1,445,178,183.83</u>	<u>14,276,785.90</u>	<u>854,897,359.28</u>

**Basics GmbH, Leverkusen**

**Income statement for the period from 1 January to 31 December 2010**

		2010		2009	
		€	In Rs.	€	In Rs.
1	Sales	24,469,337.98	1,474,056,504.82	22,430,926.09	1,351,260,607.83
2	Other operating income	1,602,157.76	96,515,527.71	1,808,073.52	108,920,091.57
3	Cost of materials				
	Cost of purchased merchandise	(18,186,479.11)	(1,095,571,030.72)	(17,561,856.91)	(1,057,943,187.35)
4	Personnel expenses				
a)	Wages and salaries	(1,889,490.36)	(113,824,720.48)	(1,836,051.89)	(110,605,535.54)
b)	Social security, post-employment and other employee benefit costs	(319,062.56)	(19,220,636.14)	(331,572.11)	(19,974,223.49)
	- of which in respect of old age pension: €50,999.27 (prior year: €77,052.73) (Vorjahr: €77.052,73) -				
		(2,208,552.92)	(133,045,356.63)		-
	5. Amortisation and write-downs of intangible assets, depreciation and write-downs of tangible assets	(930,728.00)	(56,067,951.81)	(716,511.18)	(43,163,324.10)
6	Other operating expenses	(3,604,805.22)	(217,156,940.96)	(3,942,054.89)	(237,473,186.14)
7	Other interest and similar income	17,768.43	1,070,387.35	17,862.64	1,076,062.65
8	Interest and similar expenses	(98.70)	(5,945.78)	(16,731.80)	(1,007,939.76)
<b>9</b>	<b>Result from ordinary activities</b>	<b>1,158,600.22</b>	<b>69,795,193.98</b>	<b>(147,916.53)</b>	<b>(8,910,634.34)</b>
10	Taxes on income	(325,997.76)	(19,638,419.28)	(31,791.82)	(1,915,169.88)
11	Other taxes	-	-	(26,168.00)	(1,576,385.54)
<b>12</b>	<b>Net income/net loss for the financial year</b>	<b>832,602.46</b>	<b>50,156,774.70</b>	<b>(205,876.35)</b>	<b>(12,402,189.76)</b>

## Basics GmbH, Leverkusen

### Notes to the financial statements for the financial year 2010

#### I. General

The financial statements as of 31 December 2010 were for the first time prepared in accordance with German Commercial Code rules for medium sized companies as defined in § 267 (2) HGB, based on BilMoG (Law Modernising Accounting, Reporting and Auditing) in conjunction with the rules of the Law on Limited Liability Companies (GmbHG).

The prior year's figures indicated under § 265 (2) HGB relate to the financial statements as at 31 December 2009 and were not adjusted to the amended accounting policies of BilMoG.

#### II. Accounting policies

**Intangible** and **tangible assets** are measured at acquisition cost, less scheduled amortisation/depreciation calculated on a straight-line basis, or at lower fair value.

The following useful lives are applied:

Licenses	5 years
Rights to use a trade name	13 - 15 years
Goodwill	15 years
Operating and office equipment	3 - 10 years

**Inventories** are measured at acquisition cost or at the lower fair value to be attributed at the balance sheet date, taking account of the lower of cost or market principle.

**Trade receivables, other assets** and **cash** are measured at nominal value.

**Other provisions** consider all discernible risks and contingent liabilities at the date of preparing the financial statements. Long-term provisions are discounted.

**Liabilities** are stated at their repayment amount.

**Foreign currency receivables/liabilities** are measured at the average spot exchange rate ruling at the balance sheet rate.

### **III. Comments on the balance sheet**

#### **1. Fixed assets**

The development of individual fixed assets items is shown in the fixed assets movements table attached as an appendix to the notes.

Goodwill is amortised on a straight-line basis over a useful life of 15 years based on the related tax rules.

#### **2. Current assets**

All receivables and other assets are due within less than one year.

#### **3. Other provisions**

Material items included in other provisions are:

	T€	In TRs.
Outstanding invoices	11,076	6,63,234
Personnel	235	14,072
Year-end closing expenses	12	<u>719</u>
	<b>11,323</b>	<b>678,024</b>

Outstanding invoices relate particularly to amounts not yet charged under rebate contracts with various health insurance companies (€ 9,929 thousand) (In Rs.594,551 thousand) and expenses incurred in connection with product approvals (€ 728 thousand) (IN INR 43,855 thousand).

No effects arose from the conversion to the amended accounting law.

#### **4. Liabilities**

All liabilities are due within less than one year.

#### **5. Other financial commitments**

Other financial commitments arising from rental and leasing agreements amount to EUR 114 thousand as of 31 December 2010 and are due within one year.

#### IV. Comments on the income statement

The income statement has been classified under § 275 (2) HGB, based on the nature of expense method.

**Other operating income** (T€ 1,602) (In TRs.96,506) consist materially of approval costs and personnel expenses on-debited to group companies, amounting to T€ 1,063 (In TRs.64,0361 ). It also includes prior period income of T€ 89 (In TRs.5,361) from the refund of insurance premiums for the year 2009.

**Write-downs of intangible and tangible assets** (T€ 931) (In TRs.56,084) include unscheduled amortisation of T€ 155 (In TRs.9,337) on product licenses which cannot be used.

**Other operating expenses** break down as follows:

	T€	In TRs.
Administrative expenses	1,425	85,843
Marketing and selling costs	990	59,638
Expenses for approvals and quality assurance	808	48,675
Donations	382	23,013
	3,605	217,169

#### V. Other disclosures

##### 1. Personnel

The average number of persons employed by the Company during the year was 29.

##### 2. Management

In the financial year, the Company's managing director was.

Sabine Radl, Düsseldorf (Mag. rer. soc. oec.)

The Company applies the simplification clause of § 286 (4) HGB.

### **3. Inclusion in the Group**

Basics GmbH is a 100% subsidiary of Ranbaxy (Netherlands) B.V., Amsterdam/Netherlands and is included in the consolidated financial statements of RANBAXY Laboratories Limited and in the consolidated financial statements of Daiichi Sankyo Co. Ltd., Tokyo/Japan. The consolidated financial statements of RANBAXY Laboratories Limited can be inspected under <http://www.ranbaxy.com/investorinformation/finance-archive.aspx>. The consolidated financial statements of Daiichi Sankyo Co. Ltd. are available under <http://www.daiichisankyo.com/ir/archive/index.html>.

Leverkusen, 15 March 2011

Basics GmbH,  
Leverkusen

Sd/-

Sabine Radl

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## Basics GmbH, Leverkusen

### Development of fixed assets in the financial year 2010

<b>In EUR</b>					
<b>Acquisition and manufacturing cost</b>					
	01.01.2010	Additions	Disposals	Transfers	31.12.2010
	EUR	EUR	EUR	EUR	EUR
<b>I. Intangible Assets</b>					
1. Acquired concession, industrial and similar rights and assets, and licenses in such rights and assets	6,320,595.65	22,209.99	(293,389.06)	155,408.16	6,204,824.74
2. Goodwill	5,624,803.29	-	-	-	5,624,803.29
3. Prepayments	157,618.15	3,790.01	-	(155,408.16)	6,000.00
	<b>12,103,017.09</b>	<b>26,000.00</b>	<b>(293,389.06)</b>	<b>-</b>	<b>11,835,628.03</b>
<b>II. Tangible assets</b>					
Operating and office equipment	368,179.95	19,368.72	(167,219.34)	-	220,329.33
	<b>12,471,197.04</b>	<b>45,368.72</b>	<b>(460,608.40)</b>	<b>-</b>	<b>12,055,957.36</b>
<b>In Rs.</b>					
<b>Acquisition and manufacturing cost</b>					
	01.01.2010	Additions	Disposals	Transfers	31.12.2010
	In Rs.	In Rs.	In Rs.	In Rs.	In Rs.
<b>I. Intangible Assets</b>					
1. Acquired concession, industrial and similar rights and assets, and licenses in such rights and assets	378,478,781.44	1,329,939.52	(17,568,207.19)	9,305,877.84	371,546,391.62
2. Goodwill	336,814,568.26	-	-	-	336,814,568.26
3. Prepayments	9,438,212.57	226,946.71	-	(9,305,877.84)	359,281.44
	<b>724,731,562.28</b>	<b>1,556,886.23</b>	<b>(17,568,207.19)</b>	<b>-</b>	<b>708,720,241.32</b>
<b>II. Tangible assets</b>					
Operating and office equipment	22,046,703.59	1,159,803.59	(10,013,134.13)	-	13,193,373.05
	<b>746,778,265.87</b>	<b>2,716,689.82</b>	<b>(27,581,341.32)</b>	<b>-</b>	<b>721,913,614.37</b>

<b>In EUR</b>					
Accumulated amortisation/depreciation and write-downs				Carrying amounts	
01.01.2010	Additions	Disposals	31.12.2010	31.12.2010	31.12.2009
EUR	EUR	EUR	EUR	EUR	EUR
3,189,200.03	535,591.44	-293,389.06	3,431,402.41	2,773,422.33	3,131,395.62
3,624,915.32	374,978.99	0	3,999,894.31	1,624,908.98	1,999,887.97
0	0	0	0	6,000.00	157,618.15
6,814,115.35	910,570.43	-293,389.06	7,431,296.72	4,404,331.31	5,288,901.74
315,478.45	20,157.57	-167,219.34	168,416.68	51,912.65	52,701.50
7,129,593.80	930,728.00	-460,608.40	7,599,713.40	4,456,243.96	5,341,603.24

<b>In Rs.</b>					
Accumulated amortisation/depreciation and write-downs				Carrying amounts	
01.01.2010	Additions	Disposals	31.12.2010	31.12.2010	31.12.2009
EUR	EUR	EUR	EUR	EUR	EUR
190,970,061.68	32,071,343.71	17,568,207.19	205,473,198.20	166,073,193.41	187,508,719.76
217,060,797.60	22,453,831.74	0.00	239,514,629.34	97,299,938.92	119,753,770.66
0.00	0.00	0.00	0.00	359,281.44	9,438,212.57
408,030,859.28	54,525,175.45	17,568,207.19	444,987,827.54	263,732,413.77	316,700,702.99
18,890,925.15	1,207,040.12	10,013,134.13	10,084,831.14	3,108,541.92	3,155,778.44
426,921,784.43	55,732,215.57	27,581,341.32	455,072,658.68	266,840,955.69	319,856,481.44

Conversion rate against Indian Rupee for the year 2010 and 2009 have been used :

- i) Items relating to Profit and Loss account at Average rate : 1 EURO = 0.0166
- ii) Items relating to Balance Sheet at Closing rate : . 1 EURO = 0.0167



## Business profile

Basics GmbH belongs to the Indian RANBAXY Group which is one of the largest drug manufacturers in India and ranks among the ten largest manufacturers of generics in the world. The Company started its business activities with the acquisition of the business of Bayer Vital GmbH & Co. KG in the financial year 2000. All drugs sold by Basics GmbH must comply with the approval and quality requirements of German and European authorities.

The Company sells pharmaceutical products and conducts its business in leased premises in Leverkusen. It involves a logistician for the storage and transport of its goods.

Focus of its activities is on the purchase and sale of generics which are bought mainly from affiliated companies in India.

The Company sells its merchandise primarily in Germany. More than 95 % of the sales are realised in Germany.

Basics GmbH has 29 employees as of 31 December 2010.



## Legal status

<b>Formation</b>	Based on the articles of association, the Company was formed on 29 July 1999.
<b>Company name</b>	Basics GmbH
<b>Place of registered office</b>	Leverkusen
<b>Articles of association</b>	Last amended on 22 February 2005.
<b>Commercial register</b>	Local Court (Amtsgericht) of Cologne under HRB 43673 (latest entry was made on 21 January 2010, the latest commercial register extract is dated 6 January 2011).
<b>Object</b>	The object of the Company is the manufacture and the sale of pharmaceutical products.
<b>Financial year</b>	Calendar year
<b>Share capital</b>	EUR 4,875,000.00 (In Rs.291,916,167.70); at the balance sheet date sole shareholder is Ranbaxy (Netherlands) B.V., Amsterdam/Netherlands.
<b>Inclusion in the Group</b>	The Company is included in the sub-group financial statements of Ranbaxy (Netherlands) B.V., Amsterdam/Netherlands, and in the consolidated financial statements of Daiichi Sankyo Co. Ltd., Tokyo/Japan.
<b>Managing director</b>	<p>The managing director is mentioned in appendix 3 (notes) to the financial statements.</p> <p>Every managing director is authorised to represent the Company jointly with another managing director or a “prokurist“ (holder of a special power of attorney). Where only one managing director has been appointed, he/she represents the Company alone.</p>



**“Joint prokurists“**

Hilmar Kerper, Mettmann,

V. Rama Seshadri, Cologne (until 21 January 2010).

Every “joint prokurist“ is authorised to represent the Company jointly with a managing director.

**Prior year’s financial statements**

As per shareholders’ resolution dated 29 June 2010, the financial statement, including the management report, for the year ended 31 December 2009, audited by us and given our unqualified auditor’s report, were adopted. It was resolved that the net loss of EUR 205,876.35 (In Rs.12,327,925.15) for the financial year be carried forward to new account. The acts of the managing director were approved for the financial year 2009.

**Size of the Company**

As of 31 December 2010, the Company is deemed to be a medium-sized corporation (Kapitalgesellschaft) as defined in § 267 (2) HGB.

**Tax status**

The Company is registered with the tax office of Leverkusen under the taxpayer’s identification number 230/5701/1303.

The last tax audit covered the assessment period 2003 to 2005 and was fully completed in 2008. All tax audit findings were considered in the financial statements as of 31 December 2008.

## Appendix 7

### General Engagement Terms

# General Engagement Terms

for  
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften  
[German Public Auditors and Public Audit Firms]  
as of January 1, 2002

This is an English translation of the German text, which is the sole authoritative version

## 1. Scope

(1) These engagement terms are applicable to contracts between Wirtschaftsprüfer [German Public Auditors] or Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] (hereinafter collectively referred to as the "Wirtschaftsprüfer") and their clients for audits, consulting and other engagements to the extent that something else has not been expressly agreed to in writing or is not compulsory due to legal requirements,

(2) If, in an individual case, as an exception contractual relations have also been established between the Wirtschaftsprüfer and persons other than the client, the provisions of No. 9 below also apply to such third parties.

## 2. Scope and performance of the engagement

(1) Subject of the Wirtschaftsprüfer engagement is the performance of agreed services - not a particular economic result. The engagement is performed in accordance with the Grundsätze ordnungsgemäßer Berufsausübung (Standards of Proper Professional Conduct). The Wirtschaftsprüfer is entitled to use qualified persons to conduct the engagement.

(2) The application of foreign law requires - except for financial attestation engagements - an express written agreement.

(3) The engagement does not extend - to the extent it is not directed thereto - to an examination of the issue of whether the requirements of tax law or special regulations, such as, for example, laws on price controls, laws limiting competition and Bewirtschaftungsrecht [laws controlling certain aspects of specific business operations] were observed; the same applies to the determination as to whether subsidies, allowances or other benefits may be claimed. The performance of an engagement encompasses auditing procedures aimed at the detection of the defalcation of books and records and other irregularities only if during the conduct of audits grounds therefor arise or if this has been expressly agreed to in writing.

(4) If the legal position changes subsequent to the issuance of the final professional statement, the Wirtschaftsprüfer is not obliged to inform the client of changes or any consequences resulting therefrom.

## 3. The client's duty to inform

(1) The client must ensure that the Wirtschaftsprüfer - even without his special request - is provided, on a timely basis, with all supporting documents and records required for and is informed of all events and circumstances which may be significant to the performance of the engagement. This also applies to those supporting documents and records, events and circumstances which first become known during the Wirtschaftsprüfer's work.

(2) Upon the Wirtschaftsprüfer's request, the client must confirm in a written statement drafted by the Wirtschaftsprüfer that the supporting documents and records and the information and explanations provided are complete.

## 4. Ensuring independence

The client guarantees to refrain from everything which may endanger the independence of the Wirtschaftsprüfer's staff. This particularly applies to offers of employment and offers to undertake engagements on one's own account.

## 5. Reporting and verbal information

If the Wirtschaftsprüfer is required to present the results of his work in writing, only that written presentation is authoritative. For audit engagements the long-form report should be submitted in writing to the extent that nothing else has been agreed to. Verbal statements and information provided by the Wirtschaftsprüfer's staff beyond the engagement agreed to are never binding.

## 6. Protection of the Wirtschaftsprüfer's intellectual property

The client guarantees that expert opinions, organizational charts, drafts, sketches, schedules and calculations - especially quantity and cost computations - prepared by the Wirtschaftsprüfer within the scope of the engagement will be used only for his own purposes.

## 7. Transmission of the Wirtschaftsprüfer's professional statement

(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the permission of the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms. The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.

(2) The use of the Wirtschaftsprüfer's professional statements for promotional purposes is not permitted; an infringement entitles the Wirtschaftsprüfer to immediately cancel all engagements not yet conducted for the client.

## 8. Correction of deficiencies

(1) Where two are deficiencies, the client is entitled to subsequent fulfillment (of the contract). The client may demand a reduction in fees or the cancellation of the contract only for the failure to subsequently fulfill [the contract]; If the engagement was awarded by a person carrying on a commercial business as part of that commercial business, a government-owned legal person under public law or a special government-owned fund under public law, the client may demand the cancellation of the contract only if the services rendered are of no interest to him due to the failure to subsequently fulfill [the contract]. No. 9 applies to the extent that claims for damages exist beyond this.

(2) The client must assert his claim for the correction of deficiencies in writing without delay. Claims pursuant to the first paragraph not arising from an intentional tort cease to be enforceable one year after the commencement of the statutory time limit for enforcement.

(3) Obvious deficiencies, such as typing and arithmetical errors and formelle Mängel [deficiencies associated with technicalities] contained in a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) may be corrected - and also be applicable versus third parties - by the Wirtschaftsprüfer at any time. Errors which may call into question the conclusions contained in the Wirtschaftsprüfer's professional statements entitle the Wirtschaftsprüfer to withdraw - also versus third parties - such statements. In the cases noted the Wirtschaftsprüfer should first hear the client, if possible.

## S. Liability

(1) The liability limitation of § (Article J 323 (2) ("paragraph 2h) HGB (Hendelagesetzbuch • German Commercial Code) applies to statutory audits required by law.

(2) Liability for negligence; An individual case of damages

If neither No. 1 is applicable nor a regulation exists in an individual case, pursuant to § 54a (1) no. 2 WPO ["Wirtschaftsprüferordnung": Law regulating the profession of Wirtschaftsprüfer] the liability of the Wirtschaftsprüfer for claims of compensatory damages of any kind - except for damages resulting from injury to life, body or health - for an individual case of damages resulting from negligence is limited to @ 4 million; this also applies if liability to a person other than the client should be established. An individual case of damages 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 without taking into account whether the damages occurred in one year or in a number of successive years. In this case multiple acts or omissions of acts based on a similar source of error or on a source of error of an equivalent nature are deemed to be a uniform breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the Wirtschaftsprüfer is limited to E 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(3) Preclusive deadlines

A compensatory damages claim may only be lodged within a preclusive deadline of one year of the rightful claimant having become aware of the damage and of the event giving rise to the claim - at the very latest, however, within 5 years subsequent to the event giving rise to the claim. The claim expires if legal action is not taken within a six month deadline subsequent to the written refusal of acceptance of the indemnity and the client was informed of this consequence.

The right to assert the bar of the preclusive deadline remains unaffected. Sentences 1 to 3 also apply to legally required audits with statutory liability limits.

#### 10. Supplementary provisions for audit engagements

(1) A subsequent amendment or abridgement of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.

(2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.

(3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

#### 11. Supplementary provisions for assistance with tax matters

(1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client - especially numerical disclosures - are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.

(2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records - especially tax assessments - material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.

(3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client
- b) examination of tax assessments in relation to the taxes mentioned in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a)
- e) participation in Einspruchs- and Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a). In the

above-mentioned work the Wirtschaftsprüfer takes material published legal decisions and administrative interpretations into account.

(4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.

(5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:

- a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax
- b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and
- c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

(6) To the extent that the annual sales tax return is accepted as additional work, this does not include the review of any special accounting prerequisites nor of the issue as to whether all potential legal sales tax reductions have been claimed. No guarantee is assumed for the completeness of the supporting documents and records to validate the deduction of the input tax credit.

#### 12. Confidentiality towards third parties and data security

(1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.

(2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.

(3) The Wirtschaftsprüfer is entitled - within the purposes stipulated by the client - to process personal data entrusted to him or allow them to be processed by third parties.

13. Default of acceptance and lack of cooperation on the part of the client  
If the client defaults in accepting the services offered by the Wirtschaftsprüfer or if the client does not provide the assistance incumbent on him pursuant to No. 3 or otherwise, the Wirtschaftsprüfer is entitled to cancel the contract immediately. The Wirtschaftsprüfer's right to compensation for additional expenses as well as for damages caused by the default or the lack of assistance is not affected, even if the Wirtschaftsprüfer does not exercise his right to cancel.

#### 14. Remuneration

(1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays: sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.

(2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

15. Retention and return of supporting documentation and records (1) The Wirtschaftsprüfer retains, for ten years, the supporting documents and records in connection with the completion of the engagement - that had been provided to him and that he has prepared himself - as well as the correspondence with respect to the engagement.

(2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

#### 16. Applicable law

Only German law applies to the engagement, its conduct and any claims arising therefrom.