

## IMPORTANT NOTICE

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) WITHIN THE MEANING OF RULE 144A (“RULE 144A”) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR (2) PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT) AND WHO ARE OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S (“REGULATION S”) UNDER THE U.S. SECURITIES ACT (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, NOT A RETAIL INVESTOR).**

**IMPORTANT: You must read the following before continuing.** The following applies to the preliminary offering memorandum following this notice (the “offering memorandum”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The offering memorandum has been prepared in connection with the proposed offering and sale of the securities described therein. The offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS OFFERING MEMORANDUM CONTRARY TO ANY OF THE FORGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED TO, AND WILL NOT BE ABLE TO, PURCHASE ANY OF THE NOTES.

**Confirmation of your representation:** In order to be eligible to view the offering memorandum or make an investment decision with respect to the securities described therein, investors must be either (1) QIBs or (2) persons who are not U.S. persons (as defined in Regulation S) and who are outside the United States in an offshore transaction outside the United States in reliance on Regulation S; provided that investors resident in a member state of the European Economic Area (the “EEA”) are not retail investors (as defined herein). The offering memorandum is being sent at your request. By accepting the e-mail or other electronic transmission and accessing the offering memorandum, you shall be deemed to have represented to each of the Initial Purchasers (as defined in the attached offering memorandum), being the senders of the offering memorandum, that:

1. you consent to delivery of such offering memorandum by electronic transmission; and
2. either:
  - (a) you and any customers you represent are QIBs; or
  - (b) (i) you and any customers you represent are not U.S. persons and (ii) the e-mail address that you gave us and to which the electronic transmission has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia; and
3. if you are resident in a member state of the EEA, you are not a retail investor.

Prospective purchasers that are QIBs are hereby notified that the seller of the securities will be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act pursuant to Rule 144A.

You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and an Initial Purchaser or any affiliate of an Initial Purchaser (as defined in the offering memorandum) is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Initial Purchaser or such affiliate on behalf of Nidda Healthcare Holding GmbH (the “Senior Secured Notes Issuer”) in such jurisdiction. Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The offering memorandum has not been approved by an authorized person in the United Kingdom and is for distribution only to persons who (i) have professional experience in matters relating to investments (being investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”)), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. No part of this offering memorandum should be published, reproduced, distributed or otherwise made available in whole or in part to any other person.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to us.

The offering memorandum has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Initial Purchasers, any person who controls the Initial Purchasers, the Senior Secured Notes Issuer, or the Guarantors (as defined in the attached offering memorandum), nor any of their respective directors, officers, employees, agents or affiliates of the foregoing entities or persons, accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic form and the hard copy version available to you on request from the Initial Purchasers.

**Professional investors and ECPs only target market:** Solely for the purposes of the product approval process of the manufacturers, the target market assessment in respect of the securities described in this offering memorandum has led to the conclusion that: (i) the target market for such securities is eligible counterparties (“ECPs”) and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of such securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending such securities (a “distributor”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of such securities (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

**Prohibition of sales to EEA retail investors:** The securities described in the attached offering memorandum are not intended to be offered, sold or otherwise made available to and should not be made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.



## Nidda Healthcare Holding GmbH

### € 3½% Senior Secured Notes due 2024

Nidda Healthcare Holding GmbH, a *Gesellschaft mit beschränkter Haftung* organized under the laws of Germany (the “Senior Secured Notes Issuer”), is offering (the “Offering”) € in aggregate principal amount of additional 3½% Senior Secured Notes due 2024, initially consisting of € in aggregate principal amount of 3½% Senior Secured Notes due 2024 (the “Walmark Tap Notes”) and € in aggregate principal amount of 3½% Senior Secured Notes due 2024 (the “Takeda Temporary Notes”). The proceeds from the Offering will be used as set forth under “Use of Proceeds.”

On the New Issue Date (as defined below), the Walmark Tap Notes will be issued pursuant to the indenture dated as of September 29, 2017 (as amended and supplemented from time to time, the “Senior Secured Notes Indenture”), entered into between, among others, the Senior Secured Notes Issuer, as issuer, and U.S. Bank Trustees Limited, as trustee (the “Trustee”), governing the Senior Secured Notes Issuer’s existing €735,000,000 3½% Senior Secured Notes due 2024 (the “Existing Senior Secured Notes”). The Walmark Tap Notes will have the same ISIN and common codes as the Existing Senior Secured Notes, provided that the Walmark Tap Notes sold to non-U.S. persons outside the United States pursuant to Regulation S of the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”) (the “Regulation S Walmark Tap Notes”) will initially be issued bearing a temporary ISIN and common code. On and from the consolidation date, the Regulation S Walmark Tap Notes will be consolidated and fully fungible with the Existing Senior Secured Notes sold to non-U.S. persons outside the United States pursuant to Regulation S. The consolidation date will be 40 days after the later of (i) the date of the original issuance of the Regulation S Walmark Tap Notes offered hereby and (ii) the date on which the Regulation S Walmark Tap Notes were first offered to persons other than distributors as defined in Regulation S. See “Description of the Senior Secured Notes.”

On the New Issue Date, the Takeda Temporary Notes will be issued pursuant to a temporary indenture (the “Takeda Temporary Indenture”) entered into between, among others, the Senior Secured Notes Issuer and the Trustee. The Takeda Temporary Notes will have the same terms and conditions as the Existing Senior Secured Notes, except as described herein. See “Description of the Temporary Notes.” Subject to the provisions in respect of a Special Mandatory Redemption (as defined herein), on the Takeda Temporary Notes Exchange Date (as defined herein) the Takeda Temporary Notes will automatically be exchanged for an equal aggregate principal amount of additional 3½% Senior Secured Notes due 2024 (the “Takeda Tap Notes” and, together with the Takeda Temporary Notes, the “Takeda Notes”) to be issued by the Senior Secured Notes Issuer under the Senior Secured Notes Indenture.

The Tap Notes (as defined herein) will have the same terms and conditions as the Existing Senior Secured Notes and will constitute a single class with the Existing Senior Secured Notes for all purposes under the Senior Secured Notes Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. However, if the stated principal amount of the Tap Notes exceeds their issue price by an amount equal to or greater than a statutorily defined *de minimis* amount, they will not, for U.S. federal income tax purposes, be fungible with, and will not form a single series with, the Existing Senior Secured Notes, and will be issued and trade with different ISINs and common codes than those assigned to the Existing Senior Secured Notes. See “Certain Tax Consequences.” Unless indicated otherwise, the Takeda Temporary Notes, the Tap Notes and the Existing Senior Secured Notes are referred to collectively in this offering memorandum as the “Senior Secured Notes.”

Concurrently with the closing of the Offering, the Initial Purchasers (as defined herein) will deposit the gross proceeds of the Takeda Temporary Notes into a segregated escrow account (the “Escrow Account”) in the name of the Senior Secured Notes Issuer but controlled by the Escrow Agent (as defined herein) pending consummation of the Takeda Acquisition, and pledged on a first-ranking basis in favor of the Trustee on behalf of the holders of the Takeda Temporary Notes. The release of the escrowed proceeds will be subject to the satisfaction of certain conditions, including that the funds required to pay the consideration for the Takeda Acquisition will be applied promptly (and in any event within two business days). The occurrence of the Takeda Acquisition Completion Date is subject to customary closing conditions. If the conditions to the release of the escrowed proceeds have not been satisfied on or prior to the Longstop Date (as defined herein), or upon the occurrence of certain other events, the Takeda Temporary Notes will be subject to a Special Mandatory Redemption. The Special Mandatory Redemption Price (as defined herein) will be equal to 100% of the aggregate issue price of the Takeda Temporary Notes plus accrued and unpaid interest and additional amounts, if any, from the New Issue Date to, but excluding, the Special Mandatory Redemption Date (as defined herein). See “Description of the Temporary Notes.”

The Takeda Temporary Notes and the Tap Notes (together, the “Additional Notes”) will bear interest at a rate of 3.50% per annum and will mature on September 30, 2024. The Senior Secured Notes Issuer will pay interest on the Additional Notes semi-annually in arrears on each of March 30 and September 30, commencing on March 30, 2020. Interest on the Additional Notes will be deemed to have accrued from September 30, 2019.

All or a portion of the Senior Secured Notes may be redeemed at any time prior to September 30, 2020, at a redemption price equal to 100% of the principal amount of the Senior Secured Notes so redeemed plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date and the applicable “make whole” premium, as described in this offering memorandum. Prior to September 30, 2020, the Senior Secured Notes Issuer may in each calendar year redeem up to 10% of the aggregate principal amount of the Senior Secured Notes (including any additional notes) at a redemption price equal to 103% of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date. The Senior Secured Notes may be redeemed at any time on or after September 30, 2020, at the redemption prices set forth in this offering memorandum. At any time prior to September 30, 2020, up to 40% of the aggregate principal amount of the Senior Secured Notes may be redeemed at a redemption price equal to 103.50% plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date, provided that at least 50% of the original aggregate principal amount of the Senior Secured Notes remains outstanding after the redemption, with the net proceeds of one or more specified equity offerings. All of the Senior Secured Notes may also be redeemed upon the occurrence of certain changes in applicable tax law. In addition, in connection with certain tender offers for the Senior Secured Notes, if holders of not less than 90% in aggregate principal amount of the Senior Secured Notes validly tender and do not withdraw such Senior Secured Notes in such tender offer and the Senior Secured Notes Issuer, or any third-party making such tender offer in lieu of the Senior Secured Notes Issuer, purchases all of the Senior Secured Notes validly tendered and not withdrawn by such holders, the Senior Secured Notes Issuer or such third-party will have the right to redeem the Senior Secured Notes that remain outstanding in whole, but not in part, following such purchase at a price equal to the price offered to each other holder of such Senior Secured Notes. Upon the occurrence of certain defined events constituting a change of control, each holder of Senior Secured Notes may require the Senior Secured Notes Issuer to repurchase all or a portion of the Senior Secured Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date. However, a change of control will not be deemed to have occurred if a specified consolidated net leverage ratio is not exceeded in connection with, or upon signing of a definitive agreement in respect of, such event.

The Takeda Temporary Notes will not be guaranteed. On the New Issue Date, in the case of the Walmark Tap Notes, and as of the Takeda Temporary Notes Exchange Date, in the case of the Takeda Tap Notes, the Tap Notes will be guaranteed by the Senior Secured Notes Guarantors (as defined herein), as further described in this offering memorandum. See “Summary—The Offering—Guarantors” and “Ranking of the Additional Notes and the Senior Secured Notes Guarantees.”

On the New Issue Date, the Takeda Temporary Notes will be secured by a first-ranking pledge over the Escrow Account. On the New Issue Date, in the case of the Walmark Tap Notes, and as of the Takeda Temporary Notes Exchange Date, in the case of the Takeda Tap Notes, and, in each case, subject to the Agreed Security Principles (as defined herein), the Tap Notes and the Senior Secured Notes Guarantees (as defined herein) thereof will be secured on a first-priority basis by security interests in the Senior Secured Notes Collateral (as defined herein). The Senior Secured Notes Collateral also secures the Senior Secured Credit Facilities (as defined herein) and certain hedging obligations on a first-priority basis. A portion of the Senior Secured Notes Collateral also secures the Senior Notes (as defined herein) on a second-priority basis. See “Summary—The Offering—Collateral.” The validity and enforceability of the Senior Secured Notes Guarantees and the security and the liability of each Senior Secured Notes Guarantor and security provider will be subject to certain limitations. See “Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.” The security interests in favor of the Tap Notes and the Senior Secured Notes Guarantees may be released under certain circumstances.

There is currently no public market for the Additional Notes. The Existing Senior Secured Notes have been listed and admitted to dealing on the Official List of The International Stock Exchange (the “Exchange”). Application will be made to The International Stock Exchange Authority Limited (the “Authority”) for the listing of and permission to deal in the Additional Notes on the Official List of the Exchange. There can be no assurance, however, that the Additional Notes will be listed on the Official List of the Exchange, that such permission to deal in the Additional Notes will be granted or that such listing will be maintained. The Exchange is not a regulated market pursuant to the provisions of Directive 2014/65/EU on markets in financial instruments, as amended.

**Investing in the Additional Notes involves a high degree of risk. See “Risk Factors” beginning on page 31.**

Issue price for the Additional Notes: % plus accrued interest, if any, from September 30, 2019.

None of the Senior Secured Notes and the Senior Secured Notes Guarantees thereof have been, or will be, registered under the U.S. Securities Act, or the securities laws of any other jurisdiction. The Additional Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the U.S. Securities Act (“Rule 144A”) and to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act (“Regulation S”). You are hereby notified that sellers of the Additional Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. See “Notice to Certain Investors” and “Transfer Restrictions” for additional information about eligible offerees and transfer restrictions.

Delivery of the Additional Notes will be made in book-entry form through a common depository of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). The Walmark Tap Notes and the Takeda Temporary Notes are expected to be delivered to investors on or about , 2019 (the “New Issue Date”).

The Additional Notes will be in registered form in minimum denominations of €100,000 and integral multiples of €1,000 above €100,000.

Joint Bookrunners

**Citigroup**  
(Physical Bookrunner)  
**Jefferies**

**Nomura**

**UBS Investment Bank**

**Barclays**

**Commerzbank**

**Deutsche Bank**

**ING**

**Morgan Stanley**

**Société Générale**

**J.P. Morgan**

The date of this offering memorandum is , 2019.

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In making an investment decision, you should rely only on the information contained in this offering memorandum. None of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors (as defined below) or any of Citigroup Global Markets Limited, Nomura International plc, Jefferies International Limited, UBS AG, London Branch, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, ING Bank N.V., London Branch, Morgan Stanley & Co. International plc, Société Générale and J.P. Morgan Securities plc (the “Initial Purchasers”) has authorized anyone to provide you with information that is different from the information contained herein. If given, any such information should not be relied upon. None of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors or any of the Initial Purchasers is making an offer of Takeda Temporary Notes and Walmark Tap Notes in any jurisdiction where this Offering is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front cover of this offering memorandum.



## IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

**THE ADDITIONAL NOTES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS UNLESS THE ADDITIONAL NOTES ARE REGISTERED UNDER THE U.S. SECURITIES ACT, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT IS AVAILABLE. SEE “*PLAN OF DISTRIBUTION*” AND “*NOTICE TO CERTAIN INVESTORS*.” INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A UNDER THE U.S. SECURITIES ACT.**

This offering memorandum has been prepared by the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors solely for use in connection with the proposed offering of the Additional Notes. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Additional Notes. This offering memorandum may not be distributed to any person other than prospective investors and any person retained to advise such prospective investors with respect to the purchase of the Additional Notes, and any disclosure of the contents of this offering memorandum without our prior written consent is prohibited. By accepting delivery of this offering memorandum, you agree to the foregoing and you agree to not make copies of this offering memorandum or any documents referred to in this offering memorandum.

Each of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors, having made all reasonable enquiries, confirms that, to the best of its knowledge, information and belief (having taken all reasonable care to ensure that such is the case), this offering memorandum contains all information that is material in the context of the issuance and offering of the Additional Notes and the Senior Secured Notes Guarantees, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading in any material respect and that there are no other facts the omission of which would make this offering memorandum or any such information misleading in any material respect. The information contained in this offering memorandum is correct as of the date hereof. Neither the delivery of this offering memorandum nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Senior Secured Notes Issuer or the Senior Secured Notes Guarantors since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time subsequent to that date. The Senior Secured Notes Issuer accordingly accepts responsibility for the information contained in this offering memorandum.

None of the Initial Purchasers nor any employee of the Initial Purchasers has authorized the contents or circulation of this offering memorandum and does not assume any responsibility for, and will not accept any liability for, any loss suffered as a result of, arising out of, or in connection with this document or any of the information or opinions contained in it.

In accordance with normal and accepted market practice, neither the Trustee, the Security Agent, the Paying Agent, the Registrar, nor the Transfer Agent each is responsible for the contents of this offering memorandum or expresses any opinion as to the merits of the Additional Notes under this offering memorandum.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this offering memorandum and, if given or made, any such information or representation must not be relied upon as having been authorized by the Senior Secured Notes Issuer, the Senior Notes Guarantors, any of their respective affiliates, or the Initial Purchasers. This offering memorandum does not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful.

By receiving this offering memorandum, investors acknowledge that they have had an opportunity to request for review, and have received, all additional information they deem necessary to verify the accuracy and completeness of the information contained in this offering memorandum. Investors also acknowledge that they have not relied on the Initial Purchasers in connection with their investigation of the accuracy of this information or their decision whether to invest in the Additional Notes. The contents of this offering memorandum are not to be considered legal, business, financial, investment, tax or other advice.

Prospective investors should consult their own counsel, accountants and other advisors as to legal, business, financial, investment, tax and other aspects of a purchase of the Additional Notes. In making an investment decision, investors must rely on their own examination of the Senior Secured Notes Issuer and the Group (as defined herein), the terms of the Offering and the merits and risks involved.

The information set forth in those sections of this offering memorandum describing clearing and settlement is subject to any change or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream currently in effect. Investors wishing to use these clearing systems are advised to confirm the continued applicability of their rules, regulations and procedures. Each of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors, the Trustee, the Paying Agent, the Transfer Agent and the Registrar will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such book-entry interests.

This Offering is being made in reliance upon exemptions from registration under the U.S. Securities Act for an offer and sale of securities that does not involve a public offering. The Additional Notes have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission or any other U.S. federal, state or foreign securities commission or regulatory authority, nor has any such commission or regulatory authority reviewed or passed upon the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

The Initial Purchasers reserve the right to withdraw this Offering at any time and to reject any commitment to subscribe for the Additional Notes, in whole or in part. The Initial Purchasers also reserve the right to allot less than the full amount of Notes sought by investors. The Initial Purchasers and certain related entities may acquire a portion of the Additional Notes for their own account.

The laws of certain jurisdictions may restrict the distribution of this offering memorandum and the offer and sale of the Additional Notes. Persons into whose possession this offering memorandum or any of the Additional Notes come must inform themselves about, and observe any such restrictions. None of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors, the Initial Purchasers, the Trustee, the Paying Agent, the Security Agent or their respective representatives are making any representation to any offeree or any purchaser of the Additional Notes regarding the legality of any investment in the Additional Notes by such offeree or purchaser under applicable investment or similar laws or regulations. For a further description of certain restrictions on the Offering and sale of the Additional Notes and the distribution of the offering memorandum, see “*Notice to Certain Investors*” and “*Plan of Distribution*.”

To purchase the Additional Notes, investors must comply with all applicable laws and regulations in force in any jurisdiction in which investors purchase, offer or sell the Additional Notes or possess or distribute this offering memorandum. Investors must also obtain any consent, approval or permission required by such jurisdiction for investors to purchase, offer or sell any of the Additional Notes under the laws and regulations in force in any jurisdiction to which investors are subject. None of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors, the Initial Purchasers, the Trustee, the Paying Agent, the Security Agent or their respective affiliates will have any responsibility therefor.

No action has been taken by the Initial Purchasers, the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors, or any other person that would permit an Offering or the circulation or distribution of this offering memorandum or any offering material in relation to the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors, or the Additional Notes in any country or jurisdiction where action for that purpose is required.

The Additional Notes will only be issued in fully registered form and in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Additional Notes sold to qualified institutional buyers in reliance on Rule 144A will be represented by one or more global notes in registered form without interest coupons attached (the “144A Global Notes”). Notes sold to non-U.S. persons outside the United States in reliance on Regulation S will be represented by one or more global notes in registered form without interest coupons attached (the “Regulation S Global Notes” and, together with the 144A Global Notes, the “Global Notes”). The Global Notes will be deposited with, or on behalf of, a common depositary for the accounts of Euroclear and Clearstream and registered in the name of the nominee of the common depositary. See “*Book-Entry, Delivery and Form*.”

The Existing Senior Secured Notes have been listed and admitted to dealing on the Official List of Exchange. Application will be made to The International Stock Exchange Authority Limited for the listing of and permission to deal in the Additional Notes on the Official List of the Exchange and we intend to

submit this offering memorandum to the competent authority in connection with the listing application. In the course of any review by the competent authority, we may be requested to make changes to the financial and other information included in this offering memorandum in producing listing particulars for such listing. Comments by the competent authority may require significant modification or reformulation of information contained in this offering memorandum or may require the inclusion of additional information. We may also be required to update the information in this offering memorandum to reflect changes in the business, financial position or results of operations and prospects of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors and their respective subsidiaries (as applicable). There can be no assurance that the Additional Notes will be listed on the Official List of the Exchange, that such permission to deal in the Additional Notes will be granted or that such listing will be maintained and settlement of the Additional Notes is not conditioned on obtaining this listing. Any investor or potential investor in the European Economic Area (the “EEA”) should not base any investment decision relating to the Additional Notes on the information contained in this offering memorandum after publication of the listing particulars and should refer instead to those listing particulars.

#### **STABILIZATION**

**IN CONNECTION WITH THIS ISSUE, CITIGROUP GLOBAL MARKETS LIMITED (THE “STABILIZING MANAGER”) (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE ADDITIONAL NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE NEW ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE NEW ISSUE DATE AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE TAKEDA TEMPORARY NOTES AND WALMARK TAP NOTES. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE “*PLAN OF DISTRIBUTION*.”**

## NOTICE TO CERTAIN INVESTORS

### United States

None of the U.S. Securities and Exchange Commission, any state securities commission or any other regulatory authority has approved or disapproved of the Additional Notes or the Senior Secured Notes Guarantees, and none of the foregoing authorities have passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary could be a criminal offense in certain jurisdictions.

Each purchaser of the Additional Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this offering memorandum under “*Transfer Restrictions*.” The Additional Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and are subject to certain restrictions on transfer. Prospective purchasers are hereby notified that the seller of any note may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the Additional Notes, see “*Transfer Restrictions*.”

### Canada

The Additional Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Additional Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights, or consult with a legal advisor.

Pursuant to Section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

### European Economic Area

This offering memorandum has been prepared on the basis that any offer of Additional Notes in any Member State of the EEA that is subject to Regulation (EU) 2017/1129 (the “Prospectus Regulation”) (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of the Additional Notes. The expression “Prospectus Regulation” means Regulation (EU) 2017/1129 on the prospectus to be published when the securities are offered to the public or admitted to trading.

### *Professional Investors and ECPs Only Target Market*

Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Additional Notes has led to the conclusion that: (i) the target market for the Additional Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Additional Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Additional Notes (a “distributor”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Additional Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

### *Prohibition of Sales to EEA Retail Investors*

The Additional Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail



investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Additional Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Additional Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## **Belgium**

The Additional Notes are not offered, directly or indirectly, to the public in Belgium. The Additional Notes are being offered in Belgium to qualified investors only, within the meaning of the Prospectus Regulation. Accordingly, this offering memorandum has not been and will not be notified to, or approved by, the Belgian Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/ Autorité des Services et Marchés Financiers*). This offering cannot be advertised and this offering memorandum and any other information, circular, brochure or similar documents may not be distributed, directly or indirectly, in Belgium other than to said qualified investors.

## **Germany**

The Offering is not a public offering in the Federal Republic of Germany. The Additional Notes may not be offered and sold in the Federal Republic of Germany except in accordance with the provisions of the Securities Prospectus Act of the Federal Republic of Germany (*Wertpapierprospektgesetz*) (as amended, the “German Securities Prospectus Act”), the Regulation (EU) 2017/1129 of June 14, 2017 (as amended, the “Prospectus Regulation”) and any other laws applicable in Germany. This offering memorandum has not been and will not be submitted to, nor has it been nor will it be approved by, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (“BaFin”). BaFin has not obtained and will not obtain a notification from another competent authority of a member state of the European Union (each a Member State), with which a securities prospectus may have been filed, pursuant to Article 25 of the Prospectus Regulation. The Additional Notes must not be distributed within Germany by way of a public offer, public advertisement or in any similar manner, and this offering memorandum and any other document relating to the Additional Notes, as well as information contained therein, may not be supplied to the public in Germany or used in connection with any offer for subscription of Additional Notes to the public in Germany. Consequently, in Germany the Additional Notes will only be available to, and this offering memorandum and any other offering material in relation to the Additional Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger*) within the meaning of Section 2 No. 3 of the German Securities Prospectus Act in connection with Article 2 lit. e of the Prospectus Regulation. Any resale of the Additional Notes in Germany may only be made in accordance with the German Securities Prospectus Act and other applicable laws.

## **United Kingdom**

This offering memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Additional Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “Relevant Persons”). This offering memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this offering memorandum relates is permitted only by Relevant Persons and will be engaged in only with Relevant Persons.

## **Republic of Ireland**

The Additional Notes may only be offered or sold to the public in the Republic of Ireland or underwritten or placed in conformity with the provisions of: (i) the Prospectus Regulation, the European Union (Prospectus) Regulations 2019 and any rules issued by the Central Bank of Ireland (the “Central Bank”)

under Section 1363 of the Companies Act 2014 (as amended, the “Companies Act”); (ii) the European Union (Markets in Financial Instruments) Regulations 2017 (as amended, the “MiFID Regulations”), including, without limitation, Regulations 5 (Requirement for authorization (and certain provisions concerning multilateral trading facilities and organized trading facilities)) any codes of conduct made under the MiFID Regulations, and the provisions of the Investor Compensation Act 1998 (as amended); (iii) the Companies Act, the Central Bank Acts 1942 to 2018 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989 (as amended); (iv) the Market Abuse Regulation (EU 596/2014) (as amended), the European Union (Market Abuse) Regulations 2016 of Ireland and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements, including statements about market consolidation and our strategy, investment program, future operations, industry forecasts, expected acquisitions, transactions and investments (including the Acquisitions), and target levels of leverage and indebtedness. Forward-looking statements provide our current expectations, intentions or forecasts of future events. Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “seek,” “target” or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those expected in our forward-looking statements for many reasons, including the factors described in “*Risk Factors*.” In addition, even if our actual results are consistent with the forward-looking statements contained in this offering memorandum, those results or developments may not be indicative of results or developments in subsequent periods. For example, factors that could cause our actual results to vary from projected future results include, but are not limited to:

- our highly competitive industry;
- extensive governmental regulation and changes in these regulations, or our failure to comply with regulations;
- changes in demand for our products due to economic, political and regulatory factors which are beyond our control;
- existing and future healthcare cost-containment reform measures by government health authorities or government-sponsored healthcare systems;
- failure to obtain necessary government approvals for manufacturing and marketing our products;
- failure to successfully develop, manufacture or commercialize new Generics products in a timely manner;
- the risk of litigation and other claims, including with respect to the infringement of third parties proprietary rights and disputes with other STADA shareholders;
- the risk of industrial action or adverse labor relations;
- reputational issues due to product liability or contamination issues, whether actual or perceived;
- acceptance of the products by end-users and independent third parties, including public health insurers, doctors and pharmacists;
- problems in manufacturing products;
- potential significant integration costs with respect to any of our bolt-on acquisitions;
- disruption of our operations due to accidents, equipment malfunctioning or other unexpected events;
- accidental contamination, non-compliance with environmental, health and safety laws or environmental, health and safety litigation or liability;
- our failure to renew agreements with material suppliers and wholesale customers on acceptable terms or the termination of such agreements;
- changes in large volumes of demand arising from tender systems leading to delivery bottlenecks or unintentional increase in inventories;
- significant increases in the cost of active ingredients or auxiliary materials used in manufacturing our products or lack of their availability;
- risks associated with cross-border sales and purchases;
- risks related to conducting operations in several different countries;

- pricing adjustments of cross-border transactions leading to greater or double taxation of profits;
- risks of national and international sanctions affecting Russia, in which we operate manufacturing facilities and sales entities and have significant sales;
- international sanctions, including economic and trade sanctions imposed by the European Union and other jurisdictions, affecting our international sales and operations, including in Russia;
- the result of the United Kingdom's withdrawal from the European Union;
- the potential decline of our sales and profits from generic pharmaceutical products as a result of competition, both from other pharmaceutical companies and as a result of increased governmental pricing pressure;
- undesirable side effects or other properties of our products that delay or prevent their regulatory approval or limit their commercial potential;
- counterfeit versions of our products;
- the termination of licenses from third-party pharmaceutical companies;
- our inability to retain key personnel;
- a breakdown in our information technology systems;
- our failure to maintain the confidentiality of personal data;
- default or counterparty risks in connection with our operating business or as a result of contracting parties' failure to meet their contractual obligations;
- risks related to potential negative long-term health effects of vaping products use;
- fluctuations in exchange rates;
- transfer price risks;
- impairment of goodwill and other intangible assets;
- operating risks, including natural disasters, fire, explosion, sabotage, terrorism and other criminal activities;
- changes to the composition of the eurozone;
- defaults under certain other indebtedness of STADA as a result of the grant of security in favor of the Senior Secured Notes and the Senior Secured Credit Facilities;
- our inability to realize the anticipated operational efficiencies and cost savings; and
- other factors discussed under "*Risk Factors*."

These risks and others described under "*Risk Factors*" are not exhaustive. Other sections of this offering memorandum describe additional factors that could adversely affect our financial position, results of operations and liquidity. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as at the date of this offering memorandum, and we do not intend, and do not assume any obligation, to update forward-looking statements set out in this offering memorandum. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this offering memorandum. As a result, you should not place undue reliance on these forward-looking statements.

## **INDUSTRY AND MARKET DATA**

We operate in the pharmaceuticals sector of the global healthcare industry. In certain cases, it is difficult in this sector to obtain precise market, economic and industry information. Certain information used in this offering memorandum has been obtained from IQVIA Holdings, Inc. (formerly, Quintiles IMS

Holdings, Inc.) (“IQVIA”), a leading information, services and technology company. In particular, information obtained from IQVIA includes descriptions of the pharmaceutical markets in certain geographies and details of the Group’s market share and competitive position, which may be based on manufacturer or pharmacy sales and volume or value. In addition, certain information regarding industry benchmarks and potential cost savings have been obtained by the Sponsors (as defined herein) from a leading global consulting firm.

None of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors or the Initial Purchasers accepts responsibility for the factual correctness of any such statistics or information obtained from third parties. While the Senior Secured Notes Issuer believes this information to be reliable, it has not been independently verified, and we do not make any representation or warranty as to the accuracy or completeness of such information set forth in this offering memorandum. Market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. Additionally, industry publications and reports from management consultants generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed and in some instances state that they do not assume liability for such information. We cannot therefore assure you of the accuracy and completeness of such information as we have not independently verified such information.

#### **TRADEMARKS AND TRADE NAMES**

The Group owns or has rights to certain trademarks, trade names or service marks that it uses in connection with the operation of its business. The Group asserts, to the fullest extent under applicable law, its rights to its trademarks, trade names and service marks. Each trademark, trade name or service mark of any other company appearing in this offering memorandum belongs to its holder.

Solely for convenience, the trademarks, trade names and copyrights referred to in this offering memorandum are listed without the TM, ® and © symbols.



## CERTAIN DEFINITIONS

In this offering memorandum:

“ <b>2017 Senior Notes</b> ” . . . . .	means the €340.0 million aggregate principal amount of 5% Senior Notes due 2025 issued under the 2017 Senior Notes Indenture by the Senior Notes Issuer on the Original Issue Date;
“ <b>2017 Senior Notes Indenture</b> ” . . . . .	means the indenture governing the 2017 Senior Notes dated as of the Original Issue Date, by and among, <i>inter alios</i> , the Senior Notes Issuer, the Senior Notes Guarantors, and the Trustee, as supplemented by the supplemental indenture dated July 18, 2018;
“ <b>2018 Senior Notes</b> ” . . . . .	means the €250.0 million aggregate principal amount of 7¼% Senior Notes due 2025 issued under the 2018 Senior Notes Indenture by the Senior Notes Issuer on December 4, 2018 and December 13, 2018;
“ <b>2018 Senior Notes Indenture</b> ” . . . . .	means the indenture governing the 2018 Senior Notes dated as of December 4, 2019, by and among, <i>inter alios</i> , the Senior Notes Issuer, the Senior Notes Guarantors, and the Trustee;
“ <b>2022 Notes</b> ” . . . . .	means STADA’s €300 million aggregate principal amount of 1.75% senior unsecured notes due 2022, as further described under “ <i>Description Certain Financing Arrangements—2022 Notes</i> ”;
“ <b>Acquisitions</b> ” . . . . .	the Walmark Acquisition and the Takeda Acquisitions, together;
“ <b>Additional Notes</b> ” . . . . .	means the Tap Notes and the Takeda Temporary Notes, collectively;
“ <b>Agreed Security Principles</b> ” . . . . .	has the meaning ascribed to such term under “ <i>Description of the Senior Secured Notes</i> ”;
“ <b>Bain Capital</b> ” . . . . .	means Bain Capital, L.P. and its affiliates and, where applicable, the funds and limited partnerships managed or advised by them. In the context of its investment in Bain Holdco, references to Bain Capital include its co-investors in such investment;
“ <b>Bain Holdco</b> ” . . . . .	means Universe Luxembourg S.C.A.;
“ <b>Branded Products</b> ” . . . . .	means our Branded Products division and products sold in such division, as the context requires;
“ <b>CAGR</b> ” . . . . .	means compound annual growth rate;
“ <b>Cinven</b> ” . . . . .	means Cinven Capital Management (VI) Limited Partnership, acting through its general partner Cinven Capital Management (VI) General Partner Limited, Cinven Partners LLP, Cinven Limited and Cinven (Luxco 1) S.A. and their respective affiliates and, where applicable, the funds and limited partnerships managed or advised by them. In the context of its investment in Cinven Holdco, references to Cinven include its co-investors in such investment;
“ <b>Cinven Funds</b> ” . . . . .	means Sixth Cinven Fund (No. 1) Limited Partnership, Sixth Cinven Fund (No. 2) Limited Partnership, Sixth Cinven Fund (No. 3) Limited Partnership, Sixth Cinven Fund (No. 4) Limited Partnership, each a limited partnership registered under the laws of Guernsey, the Sixth Cinven Fund Co-Investment Partnership, a partnership formed under the laws of England and Wales, and the Sixth Cinven FD Lux SCSp, a Luxembourg <i>Société en Commandite Spéciale</i> ;

<b>“Cinven Holdco”</b> . . . . .	means Ciddan S.à r.l.;
<b>“Clearstream”</b> . . . . .	means Clearstream Banking S.A. or any successor thereof;
<b>“Delisting Offer”</b> . . . . .	means the public delisting tender offer for all outstanding STADA Shares by German Holdco, which was published on October 11, 2018;
<b>“DPLTA”</b> . . . . .	means the domination and profit loss transfer agreement (including any agreement(s) that replace, supersede, amend or modify the same) which was entered into between German Holdco, as controlling entity, and STADA, as controlled entity, on December 19, 2017, and registered with the commercial register ( <i>Handelsregister</i> ) of the local court ( <i>Amtsgericht</i> ) of Frankfurt am Main at the registered seat of STADA on March 20, 2018;
<b>“Escrow Account”</b> . . . . .	means the segregated escrow account in the name of the Senior Secured Notes Issuer into which the Initial Purchasers will deposit the gross proceeds of the Takeda Temporary Notes on the New Issue Date, to be controlled by the Escrow Agent and charged in favor of the Trustee on behalf of the holders of the Takeda Temporary Notes;
<b>“Escrow Agent”</b> . . . . .	JPMorgan Chase Bank, N.A., London Branch;
<b>“Escrow Agreement”</b> . . . . .	means the agreement to be dated on or about the New Issue Date between the Senior Secured Notes Issuer, the Trustee and the Escrow Agent relating to the Escrow Account;
<b>“Escrow Charge”</b> . . . . .	means the first-ranking charge over the Escrowed Property in favor of the Trustee, which will secure the Takeda Temporary Notes on a first-priority basis as of the New Issue Date;
<b>“Escrowed Property”</b> . . . . .	means the initial funds deposited in the Escrow Account, and all other funds, securities, interest, dividends, distributions and other property and payments credited to the Escrow Account (less any property and/or funds paid in accordance with the Escrow Agreement);
<b>“EU”</b> . . . . .	means the European Union;
<b>“Euroclear”</b> . . . . .	means Euroclear Bank SA/NV or any successor thereof;
<b>“Executive Board”</b> . . . . .	means the executive board of STADA. See “ <i>Management—STADA—Executive Board</i> ”;
<b>“Existing Notes”</b> . . . . .	means the Senior Notes and the Existing Senior Secured Notes;
<b>“Existing Senior Secured Notes”</b> . . . .	means the €735.0 million aggregate principal amount of 3½% Senior Secured Notes due 2024 issued by the Senior Secured Notes Issuer on the Original Issue Date;
<b>“Facility B1”</b> . . . . .	means the €405,613,431.99 term loan B1 facility established under the Senior Secured Credit Facilities Agreement;
<b>“Facility B2”</b> . . . . .	means the €235,000,000.00 term loan B2 facility established under the Senior Secured Credit Facilities Agreement;
<b>“Facility C (EUR)”</b> . . . . .	means the €759,386,568.01 term loan C facility (EUR) established under the Senior Secured Credit Facilities Agreement;
<b>“Facility C (GBP)”</b> . . . . .	means the £266,000,000.00 term loan C facility (GBP) established under the Senior Secured Credit Facilities Agreement;

“Facility D”	means the €705,000,000.00 term loan D facility established under the Senior Secured Credit Facilities Agreement;
“Facility E”	means the € term loan E facility established under the Senior Secured Credit Facilities Agreement in connection with the Transactions;
“Generics”	means our Generics division and products sold in such division, as the context requires;
“German Holdco”	means Nidda Healthcare GmbH;
“German Midco”	means Nidda German Midco GmbH;
“German Topco”	means Nidda German Topco GmbH;
“Group”	means the Senior Notes Issuer together with its subsidiaries;
“Guarantors”	means the Senior Secured Notes Guarantors together with the Senior Notes Guarantors;
“HGB”	means the German Commercial Code ( <i>Handelsgesetzbuch</i> );
“IAS 17”	means International Accounting Standard 17 ( <i>Leases</i> ) which prescribes the accounting policies and disclosures applicable to leases and which was replaced by IFRS 16, as of January 1, 2019;
“IFRS”	means International Financial Reporting Standards, as adopted by the EU;
“IFRS 16”	means International Financial Reporting Standard 16 ( <i>Leases</i> ) promulgated by the International Accounting Standards Board (“IASB”) which provides guidance on accounting for leases and replaced International Accounting Standard 17 ( <i>Leases</i> ), as of January 1, 2019;
“Indentures”	means the Senior Secured Notes Indenture and the Senior Notes Indentures;
“Initial Purchasers”	means Citigroup Global Markets Limited, Nomura International plc, Jefferies International Limited, UBS AG, London Branch, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, ING Bank N.V., London Branch, Morgan Stanley & Co. International plc, Société Générale and J.P. Morgan Securities plc;
“Intercreditor Agreement”	means the intercreditor agreement dated as of August 17, 2017, among, <i>inter alios</i> , the Senior Notes Issuer, U.S. Bank Trustees Limited as Security Agent and security agent under the Senior Secured Credit Facilities Agreement, and certain lenders and arrangers under the Senior Secured Credit Facilities Agreement (as amended from time to time);
“Issuers”	means the Senior Secured Notes Issuer and the Senior Notes Issuer, collectively;
“Longstop Date”	means August 7, 2020;
“Lux TopCo”	means Nidda Topco S.à r.l.;
“Member State”	means a member state of the European Economic Area;
“MENA”	means the Middle East and North Africa;
“New Issue Date”	means , 2019, the date of the issuance of the Takeda Temporary Notes and the Walmark Tap Notes;

“Notes”	means the Existing Senior Secured Notes, the Senior Notes and the Tap Notes, collectively;
“Offering”	means the offering of Walmark Tap Notes and/or Takeda Temporary Notes, as the context requires;
“Original Issue Date”	means September 29, 2017, the date when the 2017 Senior Notes and the Existing Senior Secured Notes were issued;
“OTC”	means over-the-counter;
“Regulation S”	means Regulation S under the Securities Act;
“Regulation S Walmark Tap Notes”	means the Walmark Tap Notes issued outside the United States pursuant to Regulation S;
“Revolving Credit Facility”	means the €400 million multicurrency revolving credit facility established under the Senior Secured Credit Facilities Agreement;
“Schuldscheindarlehen”	means various promissory loan notes agreements that STADA entered into with various lenders, as further described under “ <i>Description Certain Financing Arrangements—Promissory Notes</i> ”;
“Security Agent”	means U.S. Bank Trustees Limited, as security agent for the Notes;
“Security Documents”	has the meaning ascribed to such term under “ <i>Description of the Senior Secured Notes</i> ”;
“Senior Notes”	means the 2017 Senior Notes and the 2018 Senior Notes, collectively;
“Senior Notes Guarantors”	means the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors, collectively;
“Senior Notes Indentures”	means the 2017 Senior Notes Indenture and the 2018 Senior Notes Indenture, together;
“Senior Notes Issuer”	means Nidda BondCo GmbH;
“Senior Secured Credit Facilities”	means the Senior Term Facilities and the Revolving Credit Facility;
“Senior Secured Credit Facilities Agreement”	means the senior secured credit facilities agreement, originally dated August 17, 2017, as amended and restated from time to time among, <i>inter alios</i> , the Senior Secured Notes Issuer and Barclays Bank PLC, as agent and U.S. Bank Trustees Limited as security agent;
“Senior Secured Notes”	means, unless indicated otherwise, Additional Notes and the Existing Senior Secured Notes, collectively;
“Senior Secured Notes Collateral”	has the meaning ascribed to such term in “ <i>Summary—The Offering—Collateral</i> ”;
“Senior Secured Notes Guarantees”	means the guarantees of the Senior Secured Notes issued by the Senior Secured Notes Guarantors pursuant to the Existing Senior Secured Notes Indenture;
“Senior Secured Notes Guarantors”	means German Holdco, Eurogenerics SA, Internis Pharmaceuticals Limited, Thornton & Ross Limited, STADA, Clonmel Healthcare Limited, Centrafarm B.V., Crosspharma Limited and Natures Aid Ltd, collectively;

<b>“Senior Secured Notes Indenture”</b> . . .	means the indenture governing the Senior Secured Notes, dated as of the Original Issue Date, by and among, <i>inter alios</i> , the Senior Secured Notes Issuer and the Senior Secured Notes Trustee;
<b>“Senior Secured Notes Issuer”</b> . . . . .	means Nidda Healthcare Holding GmbH (formerly, Nidda Healthcare Holding AG);
<b>“Senior Term Facilities”</b> . . . . .	means the Facility B1, Facility B2, Facility C (EUR), Facility C (GBP), Facility D and Facility E, in each case made available under the Senior Secured Facilities Agreement to certain term loan borrowers as identified therein;
<b>“Shared Collateral”</b> . . . . .	has the meaning ascribed to such term under “ <i>Summary—The Offering—Collateral</i> ”;
<b>“SKUs”</b> . . . . .	means stock keeping units. Each stock keeping unit designates a distinct type of product;
<b>“Sponsor Holdcos”</b> . . . . .	means Bain Holdco and Cinven Holdco, collectively;
<b>“Sponsors”</b> . . . . .	means Bain Capital and Cinven, collectively;
<b>“STADA”</b> . . . . .	means STADA Arzneimittel Aktiengesellschaft;
<b>“STADA Acquisition”</b> . . . . .	means the acquisition by the Senior Secured Notes Issuer, directly or indirectly, of a controlling interest in STADA in connection with the voluntary public takeover offer ( <i>freiwilliges Übernahmeangebot</i> ) published on July 19, 2017, together with the financing of, and any transactions ancillary to, such acquisition;
<b>“STADA Existing Debt”</b> . . . . .	has the meaning assigned to such term under “ <i>Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement—Overview and Structure</i> ”;
<b>“STADA Group”</b> . . . . .	means STADA and its subsidiaries;
<b>“STADA Shares”</b> . . . . .	means any shares of common stock of STADA;
<b>“Supervisory Board”</b> . . . . .	means the supervisory board of STADA See “ <i>Management—STADA—Supervisory Board</i> ”;
<b>“Takeda”</b> . . . . .	means Takeda Pharmaceutical Company Limited and certain of its affiliates;
<b>“Takeda Acquisition”</b> . . . . .	means, <i>inter alia</i> , our acquisition of the Takeda CIS Assets and the payment of any fees, costs and expenses payable in connection with such acquisition or refinancing (together with all related steps);
<b>“Takeda Acquisition Agreement”</b> . . . .	means the share and asset sale and purchase agreement to be entered into between, among others, the Issuer, Joint Stock Company Nizhpharm and/or any other member(s) of the Group and Takeda (together with the schedules and appendices thereto);
<b>“Takeda Acquisition Completion Date”</b> . . . . .	means the date on which the Takeda Acquisition (or any portion thereof) is first completed in accordance with the terms of the Takeda Acquisition Agreement;
<b>“Takeda CIS Assets”</b> . . . . .	means certain assets and undertakings of certain business operations currently undertaken by Takeda as more fully described in the Takeda Acquisition Agreement;
<b>“Takeda Notes”</b> . . . . .	means the Takeda Temporary Notes and the Takeda Tap Notes, collectively;



“Takeda Tap Notes” . . . . .	means the € . . . . . additional 3½% Senior Secured Notes due 2024 (in an aggregate principal amount equal to that of the Takeda Temporary Notes) which the Takeda Temporary Notes will automatically be exchanged for on or about the Takeda Temporary Notes Exchange Date;
“Takeda Temporary Indenture” . . . . .	refers to an indenture in the form of, and with the same terms and conditions as, the Senior Secured Notes Indenture, except as described under “ <i>Description of the Temporary Notes</i> ,” governing the Takeda Temporary Notes;
“Takeda Temporary Notes” . . . . .	refers to the € . . . . . in aggregate principal amount of the Senior Secured Notes Issuer’s 3½% senior secured notes due 2024 issued under the Takeda Temporary Indenture in connection with the Offering of Takeda Temporary Notes, which will be exchanged for the Takeda Tap Notes on the Takeda Temporary Notes Exchange Date;
“Takeda Temporary Notes Exchange Date” . . . . .	refers to the Takeda Acquisition Completion Date and is the date on which the Takeda Temporary Notes will be automatically exchanged for an equal aggregate principal amount of Tap Notes issued under the Indenture;
“Takeda Transaction” . . . . .	means the Takeda Acquisition and the Offering of Takeda Notes;
“Takeover Offer” . . . . .	means the revised, all-cash voluntary public tender offer ( <i>freiwilliges Übernahmeangebot</i> ) for all STADA Shares published by the Senior Secured Notes Issuer on July 19, 2017;
“Tap Notes” . . . . .	means the Walmark Tap Notes and the Takeda Tap Notes, collectively;
“Transactions” . . . . .	means the Walmark Transaction, the Takeda Transaction and the establishment of Facility E, together;
“Trustee” . . . . .	means U.S. Bank Trustees Limited, as trustee under the Senior Notes Indenture;
“United Kingdom” or “UK” . . . . .	means the United Kingdom and its territories and possessions;
“United States” or “U.S.” . . . . .	means the United States of America and its territories and possessions;
“U.S. GAAP” . . . . .	means generally accepted accounting principles in the United States;
“Walmark” . . . . .	means Walmark a.s., a company registered with the commercial register maintained by the Regional Court in Ostrava under file no. B2501, ID. No: 00536016, with its registered office at Oldřichovice 44, 739 61 Třinec, Czech Republic;
“Walmark Acquisition” . . . . .	means, <i>inter alia</i> , our acquisition of the entire issued share capital of Walmark, the refinancing of existing indebtedness of the Walmark Group and the payment of any fees, costs and expenses payable in connection with such acquisition or refinancing, together with the refinancing and the payment of fees, costs and expenses and all related steps;
“Walmark Acquisition Agreement” . . . . .	means the sale and purchase agreement to be entered into between, among others, the Issuer and/or any other member(s) of the Group and the Walmark Vendors (together with the schedules and appendices thereto);
“Walmark Group” . . . . .	means Walmark together with its subsidiaries (if any);

<b>“Walmark Tap Notes”</b> . . . . .	refers to the €            in aggregate principal amount of the Senior Secured Notes Issuer’s 3½% senior secured notes due 2024 issued under the Senior Secured Notes Indenture in connection with the Offering of the Walmark Tap Notes;
<b>“Walmark Transaction”</b> . . . . .	means the Walmark Acquisition and the Offering of Walmark Tap Notes, together;
<b>“Walmark Vendors”</b> . . . . .	means (i) certain affiliates of Mid Europa Partners and (ii) certain management vehicles in respect of Walmark; and
<b>“we,” “us,” “our”</b> and other similar terms . . . . .	mean the Group, except where the context otherwise requires.

## PRESENTATION OF FINANCIAL INFORMATION

### Financial Information

This offering memorandum includes the historical financial statements listed below (together, our “Financial Statements”):

- the unaudited condensed consolidated interim financial statements of German Topco as of and for the nine months ended September 30, 2019, including comparative information for the nine months ended September 30, 2018, which are presented in accordance with IFRS applicable to interim financial reporting (IAS 34) (the “Topco Interim Financial Statements”);
- the audited consolidated financial statements of German Topco as of and for the year ended December 31, 2018, including comparative information for the period from April 18, 2017 to December 31, 2017, which are presented in accordance with IFRS and the supplementary provisions pursuant to Section 315(e)(1) of the HGB, including the auditor’s report thereon (the “Topco Audited Financial Statements” and, together with the Topco Interim Financial Statements, the “Topco Financial Statements”); and
- the audited consolidated financial statements of STADA as of and for each of the three years ended December 31, 2016, 2017 and 2018, which are presented in accordance with IFRS and the supplementary provisions pursuant to Section 315(e)(1) of the HGB, including the auditor’s report thereon (the “STADA Financial Statements”).

For the year ended December 31, 2016, we have included in this offering memorandum only the consolidated financial statements of STADA. We believe this presentation is useful to investors, as no financial information was available for the Senior Secured Notes Issuer, the Senior Notes Issuer and German Topco for such period because both of these entities were organized in 2017, in connection with the STADA Acquisition.

For the years ended December 31, 2017 and 2018, we have included in this offering memorandum the consolidated financial statements of both STADA and German Topco, the Senior Secured Notes Issuer’s indirect parent company. We believe this information is useful to investors, as German Topco has consolidated STADA and its subsidiaries since August 22, 2017, when it indirectly acquired control over STADA pursuant to the Takeover Offer. Prior to completion of the STADA Acquisition, none of the Senior Notes Issuer, the Senior Secured Notes Issuer or German Topco had any material assets or liabilities (other than nominal share capital) or conducted any operations.

For the nine months ended September 30, 2018 and 2019, we have included in this offering memorandum only the consolidated financial statements of German Topco. We believe this information is useful to investors, as German Topco has consolidated STADA and its subsidiaries since August 22, 2017.

We have included in this offering memorandum the consolidated financial statements of German Topco instead of the Senior Secured Notes Issuer, because we report our consolidated financial condition and results of operations on an ongoing basis at the level of German Topco. The notes to German Topco’s consolidated financial statements include reconciliation columns to the consolidated financial statements of each of the Senior Notes Issuer and the Senior Secured Notes Issuer. We have also presented in the “*Summary—Summary Consolidated Financial and Other Information*” and “*Capitalization*” sections of this offering memorandum the financial information of the Senior Notes Issuer as of and for the twelve months ended September 30, 2019. We believe that this presentation is more useful to investors than presenting the financial information of German Topco because such presentation excludes additional interest expense and liabilities outside the perimeter of the restricted group of the Senior Notes Issuer. In this offering memorandum, we present the financial information of the Senior Notes Issuer, as opposed to the Senior Secured Notes Issuer, because the financial information of the Senior Notes Issuer reflects the Senior Notes Issuer’s obligations under the Senior Notes, which we believe provides a more meaningful illustration of the Group’s capital structure.

The comparability of the STADA Financial Statements and the Topco Financial Statements (including the reconciliation to the Senior Notes Issuer’s and the Senior Secured Notes Issuer’s consolidated financial information contained therein) may be limited. For example, certain consultancy costs related to the STADA Acquisition were incurred by German Topco and the Issuers. Furthermore, only a portion of the debt incurred by the Issuers under the Senior Facilities Agreement in connection with the STADA Acquisition was on-lent to STADA to refinance its STADA Existing Debt. In addition, German Topco incurred substantial liabilities under deeply-subordinated shareholder funding instruments the proceeds of

which were ultimately passed on as equity funding to the Senior Notes Issuer as the Sponsors' equity contribution in connection with the STADA Acquisition. As a result, there may be material differences in the amount of liabilities, financial results, income taxes and earnings reflected in the STADA Financial Statements and the Topco Financial Statements.

German Topco and the Issuers accounted for the STADA Acquisition, and will account for the Acquisitions, using the acquisition method of accounting under IFRS. Under IFRS 3 "*Business Combinations*," the consideration transferred in an acquisition is measured as the fair value of the assets transferred by the acquirer on the date of the acquisition, any liabilities incurred by the acquirer to the former owners of the target and any equity interests issued by the acquirer, including the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred, except for deferred costs related to the acquisition of debt or equity securities. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the aggregate of the consideration transferred and the amount of non-controlling interests in the target over the identifiable net assets on the acquisition date is recorded as goodwill. In accordance with IFRS, we had a measurement period of up to twelve months from the acquisition date to finalize the purchase price allocation for the STADA Acquisition. While we allocated the purchase price of the STADA Acquisition on a preliminary basis in the audited consolidated financial statements of German Topco for the period from April 18, 2017 to December 31, 2017, the other financial information of German Topco included in this offering memorandum reflects the final purchase price allocation. As a result, the audited consolidated financial statements of German Topco for the period from April 18, 2017 to December 31, 2017, are not directly comparable with the other financial information of German Topco included in this offering memorandum and German Topco's financial statements for future periods.

The application of the purchase price allocation of the STADA Acquisition resulted in different carrying values for certain assets and certain liabilities and therefore further affects the comparability of the Topco Financial Statements and the STADA Financial Statements. The STADA Financial Statements have not been adjusted to reflect the impact of any changes to the income statement, statement of financial position or statement of cash flows that might have occurred as a result of purchase price allocation adjustments to be applied due to the STADA Acquisition and ancillary transactions. In the section of this offering memorandum entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" we have discussed the results of operations of the Senior Notes Issuer (as derived from the Topco Financial Statements) for the nine months ended September 30, 2018 and 2019, and STADA (as derived from the STADA Financial Statements) for the years ended December 31, 2016, 2017 and 2018. We believe this discussion is more meaningful than comparing the results of operations of the Senior Notes Issuer to those of STADA.

The financial information of STADA as of and for each of the three years ended December 31, 2016, 2017 and 2018, which has been included in this offering memorandum, has been taken or derived from the STADA Financial Statements or from accounting records or internal management reporting systems of STADA. The financial information of German Topco as of and for the period from April 18, 2017 to December 31, 2017 and the year ended December 31, 2018, which has been included in this offering memorandum, has been taken or derived from the Topco Audited Financial Statements or from accounting records or internal management reporting systems of German Topco. The financial information of German Topco as of and for the nine months ended September 30, 2019, including comparative information as of and for the nine months ended September 30, 2018, which has been included in this offering memorandum, has been taken or derived from the Topco Interim Financial Statements or from accounting records or internal management reporting systems of German Topco.

With effect as of January 1, 2018, we have adopted new standards for revenue recognition in accordance with IFRS 15 (*Revenue from Contracts with Customers*) and the recognition of financial instruments in accordance with IFRS 9 (*Financial Instruments*). See note 3 to the STADA Financial Statements as of and for the year ended December 31, 2018 included in this offering memorandum.

Our consolidated financial statements are prepared and presented in accordance with IFRS. On January 13, 2016, the IASB published IFRS 16, and the European Union adopted IFRS 16 on November 9, 2017. We have adopted IFRS 16 from January 1, 2019. On adoption of IFRS 16, we recognized lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 "Leases." We recognized a right-of-use asset representing our right to use the underlying asset and a lease liability representing our obligation to make lease payments. We elected to

apply the modified retrospective approach on transition to IFRS 16, and as such the cumulative effect of initially applying the standard was recognized at the date of initial application, January 1, 2019. The adoption of IFRS 16 had an impact on our balance sheets, income statements and cash flow statements. In implementing IFRS 16, the Topco Interim Financial Statements have been prepared under the modified retrospective approach pursuant to which the cumulative effect of initially applying IFRS 16 was recognized at the date of initial application, January 1, 2019. As a result, the comparability of our income statement information between these periods is limited because our adoption of IFRS 16 on January 1, 2019, resulted in an increase of interest expense on leases, an increase of depreciation of lease assets and a decrease of rent expense on operating leases. In addition, the comparability of our balance sheet information between these dates is limited because our adoption of IFRS 16 on January 1, 2019, resulted in an increase in current and non-current other financial liabilities. To facilitate a comparison of our results of operations and financial condition across periods and irrespective of the applicable lease accounting standard, we present additional information under “*Summary—Summary Consolidated Financial and Other Information.*” See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability of Our Financial Statements—Changes to Accounting Standards—IFRS 16*” and the Topco Financial Statements and the related notes included elsewhere in this offering memorandum.

Due to a change between the applicable accounting periods in the presentation of cash outflows for finance leases, the financial information for cash flow from investing activities and cash flow from financing activities included in the STADA Financial Statements as of and for the year ended December 31, 2016 has been derived from the comparative information in the STADA Financial Statements as of and for the year ended December 31, 2017. Due to a change in presentation, the financial information for cash flow from investing activities and cash flow from financing activities for the year ended December 31, 2016, is presented on the same basis as the STADA Financial Statements as of and for the year ended December 31, 2017.

As of the date of this offering memorandum, each of German Topco, German Midco, the Senior Notes Issuer and the Senior Secured Notes Issuer is a holding, management and finance company with no business operations of its own. The Senior Notes Issuer’s only material assets consist of its indirect interest in STADA’s share capital and intercompany loans to the Senior Secured Notes Issuer. The Senior Notes Issuer’s only material liabilities consist of the obligations under the Senior Notes and deeply subordinated shareholder loans. The Senior Secured Notes Issuer’s only material assets consists of its indirect interests in STADA’s share capital and intercompany loans to German Holdco (if any). The Senior Secured Notes Issuer’s only material liabilities consist of the obligations under the Senior Secured Notes and the Senior Secured Credit Facilities. German Topco’s only material assets consist of its indirect interest in STADA’s share capital and intercompany loans to its direct subsidiary, German Midco. German Topco’s only material liabilities consist of the obligations under shareholder loans owed to its immediate parent company, Nidda MidCo S.à r.l.

The financial information of the Senior Notes Issuer for the twelve months ended September 30, 2019, is unaudited and has been calculated by taking the interim financial information for the nine months ended September 30, 2019, and adding it to the difference between the results of operations for the year ended December 31, 2018, and the nine months ended September 30, 2018 (each as derived from the Topco Financial Statements). The financial information for the twelve months ended September 30, 2019, has not been audited or reviewed by our auditors, is not required by or presented in accordance with IFRS or any other generally accepted accounting principles and has been prepared for illustrative purposes only. This information is not necessarily representative of our results of operations for such period or any future period or any financial position at any past or future date.

This offering memorandum includes certain financial information as of and for the twelve months ended September 30, 2019, presented at the level of the Senior Notes Issuer, on an adjusted basis to give pro forma effect to the Transactions and the application of the proceeds therefrom, including financial data as adjusted to reflect the effect of the Transactions on the Senior Notes Issuer’s indebtedness as if the Transactions had occurred on September 30, 2019, and on the Senior Notes Issuer’s interest expense as if the Transactions had occurred on October 1, 2018. The pro forma financial information as of and for the twelve months ended September 30, 2019, has been prepared for illustrative purposes only and does not represent what the Senior Notes Issuer’s indebtedness or interest expense would have been had the Transactions occurred on September 30, 2019, or October 1, 2018, respectively; nor does it purport to project the Senior Notes Issuer’s financial results, indebtedness or interest expense at any future date. The pro forma financial information as of and for the twelve months ended September 30, 2019, has not been



prepared in accordance with IFRS or any other generally accepted accounting standards or in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Regulation, or any other regulations of the Securities Exchange Commission, or any other regulator. Neither the assumptions underlying the pro forma adjustments nor the resulting pro forma financial information as of and for the twelve months ended September 30, 2019, have been audited or reviewed in accordance with any generally accepted auditing standards.

When calculating sales by country as presented in this offering memorandum, we allocate sales to the country in which the invoice recipient is located, which conforms to the like-titled metric presented in STADA's management report.

We present certain financial information in this offering memorandum for our two operational divisions, our Generics division and our Branded Products division. The Topco Financial Statements do not present the financial data of these divisions. We present divisional financial information in this offering memorandum as we believe it provides useful information to investors about our business. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Operating Divisions."*

## **Non-GAAP Financial Measures**

### ***General***

In this offering memorandum, we present certain financial measures that are not recognized by IFRS or any other generally accepted accounting principles and that may not be permitted to appear on the face of the Financial Statements or footnotes thereto. The primary Non-GAAP financial measures used in this offering memorandum include Adjusted Capital Expenditures, Adjusted Cash Conversion, Adjusted Free Cash Flow, adjusted net income, adjusted operating profit, adjusted sales, capital expenditures, constant-currency sales, Earnings Before Taxes, EBIT, EBITDA, EBITDA margin, EBITDA (before leases), Gross Profit, Management Adjusted EBITDA, Management Adjusted EBITDA margin, Management Normalized EBITDA, Net Working Capital, operating profit and Pro Forma Adjusted EBITDA (our "Non-GAAP Measures"). Each of the EBITDA-based and net income-based measures presented in this offering memorandum is defined and calculated differently from the definition of "Consolidated Net Income" and "Consolidated EBITDA" presented in the Senior Secured Notes Indenture.

Our primary Non-GAAP Measures are defined as follows:

- "Adjusted Capital Expenditures" is defined as capital expenditures (as defined below), excluding payments for significant investments and acquisitions;
- "Adjusted Cash Conversion" is defined as Adjusted Free Cash Flow divided by Management Adjusted EBITDA (as defined below);
- "Adjusted Free Cash Flow" is defined as Management Adjusted EBITDA (as defined below), less Adjusted Capital Expenditures (as defined above). The definition of "Adjusted Free Cash Flow" used in the Financial Statements for regular reporting purposes differs from the definition of Adjusted Free Cash Flow used in this offering memorandum;
- "adjusted net income" is defined as net income, adjusted for special items;
- "adjusted operating profit" is defined as net income before interest, taxes, investment income and result from investments measured at equity, adjusted for certain special items;
- "adjusted sales" is defined as sales, adjusted for currency effects and portfolio changes;
- "capital expenditures" is defined as total capital expenditure on intangible assets, property, plant and equipment and financial assets as well as business combinations according to IFRS 3;
- "constant-currency sales" is defined as sales, adjusted so that all of our non-euro-denominated sales are translated into euro at the same constant exchange rate in all periods presented;
- "Earnings Before Taxes" is defined as net income before income taxes;
- "EBIT" is defined as net income before interest and taxes;
- "EBITDA" is defined as net income before interest, taxes, depreciation, amortization and impairment losses;

- “EBITDA margin” is defined as EBITDA divided by sales;
- “EBITDA (before leases)” is defined as earnings before interest (including interest expense on lease liabilities), taxes, depreciation (including depreciation of lease assets in connection with leases), amortization, impairment losses and rent expense;
- “Gross Profit” is defined as sales less cost of sales;
- “Management Adjusted EBITDA” is defined as EBITDA, adjusted for certain special items. Management Adjusted EBITDA as presented in this offering memorandum is titled “EBITDA, adjusted” in the STADA Financial Statements;
- “Management Adjusted EBITDA margin” is defined as Management Adjusted EBITDA divided by sales. Management Adjusted EBITDA margin as presented in this offering memorandum is titled “adjusted EBITDA margin” in the STADA Financial Statements;
- “Management Normalized EBITDA” is defined as Management Adjusted EBITDA, adjusted for certain normalization adjustments;
- “Net Working Capital” is defined as inventories plus trade receivables less trade payables;
- “operating profit” is defined as net income before interest, taxes, investment income and result from investments measured at equity; and
- “Pro Forma Adjusted EBITDA” is defined as Management Adjusted EBITDA, adjusted for certain Sponsor-identified adjustments and expected cost savings. These adjustments and cost savings have been determined solely by the Senior Notes Issuer as further described in the offering memorandum and should not be attributed to STADA.

By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historical cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBIT, EBITDA, EBITDA (before leases), Management Adjusted EBITDA, Management Normalized EBITDA and Pro Forma Adjusted EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. By eliminating certain effects that affect the comparability between periods, we believe adjusted sales, constant-currency sales, operating profit and adjusted operating profit enhance investors’ understanding of our underlying operating performance and may not be comparable to similarly titled measures presented by other companies. We believe a presentation of Adjusted Free Cash Flow, Adjusted Cash Conversion, net working capital, capital expenditures and Adjusted Capital Expenditures is useful to investors to assess our liquidity. For these reasons, we believe that our Non-GAAP Measures and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

Our Non-GAAP Measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to performance measures derived in accordance with IFRS or any other generally accepted accounting principles. Each of our Non-GAAP Measures is defined and reconciled to its closest comparable IFRS measure under “*Summary—Summary Consolidated Financial and Other Information.*” Our Non-GAAP Measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Some of the limitations of Non-GAAP Measures are that:

- they do not reflect our cash expenditures or future requirements for capital investments or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense or cash requirements necessary to service interest or principal payments on our debt;
- they do not reflect any cash income taxes that we may be required to pay;
- they are not adjusted for all non-cash income or expense items that are reflected in our consolidated income statement;
- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations;

- assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and
- other companies in our industry and analysts may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, our Non-GAAP Measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our Financial Statements and using these Non-GAAP Measures only supplementally to evaluate our performance.

### *Constant-currency Sales*

We present our Financial Statements in euro. As a result, we translate the financial position and results of operations attributable to our consolidated subsidiaries with a functional currency other than euro into euro, using average exchange rates as of the dates and during the periods presented. In this offering memorandum, we present our sales not only as reported under IFRS, but also on a constant-currency basis using the Non-GAAP Measure titled constant-currency sales. Constant-currency sales removes the distorting effect of fluctuations in the exchange rates we use in the translation of our non-euro-denominated sales into euro by instead assuming that exchange rates were constant in all periods. We believe that this measure facilitates an understanding of the underlying economic performance of our operations. Our constant-currency sales for the years ended December 31, 2018, 2017 and 2016, the nine months ended September 30, 2019 and 2018, and the twelve months ended September 30, 2019, are computed by translating the actual values of our non-euro-denominated sales as per our subsidiaries' financial statements using the following adjusted foreign exchange rates instead of the actual foreign exchange rates used for reporting purposes during the applicable period (except with respect to consolidation adjustments):

	Adjusted Foreign exchange Rates <sup>(1)</sup>	Actual Foreign Exchange Rates					
		Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
		2016	2017	2018	2018	2019	2019
<b>Adjusted Currencies</b>							
RUB to EUR . . . . .	75.6	72.9	66.1	74.4	73.8	73.0	73.9
GBP to EUR . . . . .	0.9	0.8	0.9	0.9	0.9	0.9	0.9
VND to EUR . . . . .	26,819.5	24,718.0	25,852.7	27,159.3	27,365.4	26,103.4	26,228.9
RSD to EUR . . . . .	117.7	123.2	121.2	118.3	118.2	118.0	118.1
CHF to EUR . . . . .	1.1	1.1	1.1	1.2	1.2	1.1	1.1
DKK to EUR . . . . .	7.5	7.4	7.4	7.5	7.5	7.5	7.5
UAH to EUR . . . . .	31.3	28.3	30.1	32.0	32.1	29.6	30.3
AED to EUR . . . . .	4.3	4.1	4.2	4.3	4.4	4.1	4.1
KZT to EUR . . . . .	409.7	376.4	348.9	402.9	399.9	428.4	427.5
BAM to EUR . . . . .	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CZK to EUR . . . . .	25.7	27.0	26.3	25.6	25.6	25.7	25.7
CNY to EUR . . . . .	7.9	7.3	7.6	7.8	7.8	7.7	7.8
PHP to EUR . . . . .	62.0	52.6	55.9	62.1	62.6	58.5	59.0
ARS to EUR . . . . .	35.1	16.5	18.8	32.2	29.0	49.5	47.7
RON to EUR . . . . .	4.6	4.5	4.6	4.7	4.7	4.7	4.7
USD to EUR . . . . .	1.2	1.1	1.1	1.2	1.2	1.1	1.1
HKD to EUR . . . . .	9.1	8.6	8.4	9.2	9.3	8.8	8.8
THB to EUR . . . . .	38.3	39.0	38.3	38.2	38.4	35.1	35.7
EGP to EUR . . . . .	20.7	9.7	—	—	—	19.2	19.5
LTL to EUR . . . . .	—	—	—	—	—	3.2	3.2
AUD to EUR . . . . .	1.6	—	1.5	1.6	1.6	1.6	1.6

(1) Each constant foreign exchange rate presented in this column was used in calculating constant-currency sales. Each rate is equal to the actual average foreign exchange rate to euro of the corresponding currency during the 90 days ended October 22, 2019.

### *Adjusted Sales*

We also report the Non-GAAP Measure adjusted sales which is defined as sales, adjusted for currency effects and portfolio changes. The adjustment in respect of currency effects removes the distorting impact of exchange rate movements that affect the comparability between periods. In calculating this adjustment in each period, we use the same foreign exchange rates as in the comparative prior period to translate our non-euro-denominated sales in euro. The adjustment in respect of portfolio changes is a like-for-like adjustment that excludes the effect of investments in and divestments of companies and significant products. In calculating this adjustment in each period, we only take into account the organic sales generated by products that were sold in both periods that are being compared.

In the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations*,” we provide a tabular reconciliation for each period between adjusted sales and reported sales, its closest comparable IFRS measure. Each such reconciliation table also shows the comparative data for the previous period. Investors should note that such comparative data is solely meant to illustrate the comparative basis for the later period and differs from the actual adjusted sales data for the previous period.

### **Rounding**

Certain numerical figures set out in this offering memorandum, including financial data presented in million or thousand and percentage terms, have been subject to rounding adjustments and, as a result, the totals of the data in this offering memorandum may vary slightly from the actual arithmetic totals of such information. In addition, as a result of such rounding, the totals of certain financial information presented in tabular form may differ from the information that would have appeared in such totals using the unrounded financial information. Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” are calculated using the numerical data in the STADA Financial Statements contained in this offering memorandum, as applicable, and not using the numerical data in the narrative description thereof.

## EXCHANGE RATE INFORMATION

We publish our Financial Statements in euro. The following table sets forth, for the periods set forth below, the high, low, average and period end Bloomberg Composite Rate (London) expressed as U.S. dollars per €1.00. The Bloomberg Composite Rate is a “best market” calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The below rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this offering memorandum. We make no representation that the euro or U.S. dollar amounts referred to in this offering memorandum have been, could have been or could, in the future, be converted into U.S. dollars or euro, as the case may be, at any particular rate, if at all.

The average rate for a year means the average of the Bloomberg Composite Rates on the last business day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

The Bloomberg Composite Rate of the euro on November 7, 2019 was \$1.1041 per €1.00.

	U.S. dollar per €1.00			
	Period End	Average	High	Low
<b>Year</b>				
2014 .....	1.2100	1.3209	1.3866	1.2100
2015 .....	1.0866	1.1096	1.2010	1.0492
2016 .....	1.0547	1.1069	1.1527	1.0384
2017 .....	1.2022	1.1300	1.2026	1.0427
2018 .....	1.1452	1.1811	1.2492	1.1245
<b>Monthly</b>				
April 2019 .....	1.1217	1.1234	1.1307	1.1137
May 2019 .....	1.1162	1.1186	1.1242	1.1134
June 2019 .....	1.1359	1.1295	1.1389	1.1201
July 2019 .....	1.1128	1.1214	1.1307	1.1122
August 2019 .....	1.0988	1.1128	1.1227	1.0988
September 2019 .....	1.1010	1.1076	1.0903	1.0903
October .....	1.1146	1.1058	1.1158	1.0938
November (through November 7, 2019) .....	1.1041	1.1096	1.1162	1.1041



## SUMMARY

*The following summary contains basic information about us and this Offering and is qualified by, and should be read in conjunction with, the more detailed information appearing elsewhere in this offering memorandum. This summary is not complete and does not contain all the information that you should consider before investing in the Additional Notes. For a more complete understanding of this Offering, we encourage you to read this entire offering memorandum carefully, including “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” “Regulation” and our Financial Statements and the notes to those Financial Statements contained elsewhere in this offering memorandum.*

### Overview

We are a leading international healthcare and pharmaceuticals company focused on branded and unbranded generics, with a successful track record spanning over 120 years. With more than 17,000 SKUs covering a large number of therapeutic areas, we develop, manufacture and market a diversified product portfolio that includes many category leaders. We distribute our products in approximately 120 countries and have a direct presence in all major European markets, as well as in growth markets in the MENA region, Asia, South America and Australia.

We are the fifth largest generics company by sales and we ranked ninth among OTC companies in Europe as of December 31, 2018. Our market-leading positions provide us with a competitive advantage, which is bolstered by our scale, brands, reputation and the breadth of our product portfolio, as well as our local market expertise and established distribution channels built on strong relationships with wholesalers and pharmacies. We continually work to optimize and manage our costs, including through our cost-effective manufacturing footprint comprising 18 facilities across Europe, Asia and South America. Building on our tried and tested platform, we have released on average more than 600 new products each year since 2014. Our solid pipeline of new products provides us with further opportunities as our markets grow. We have a strong track record of growth, both organically and through focused acquisitions, and seek to grow our business and further improve our profitability by internationalizing successful products. In the twelve months ended September 30, 2019, we generated sales of €2,525.5 million and Pro Forma Adjusted EBITDA of €821.3 million.

The products we sell are classified according to two divisions: Generics and Branded Products.

**Generics:** Within our Generics division, we sell unbranded generics products, offering a lower cost alternative to the substantially more expensive pharmaceutical-originator products. Most of the products in our Generics division require a prescription for purchase and are only available from pharmacies and hospitals. The market for prescription products is generally characterized by regulated pricing, with competition driven by the reliability of supply and cost competitiveness. Patent expirations of originator drugs feed our product pipeline in the Generics division, allowing us to leverage our distribution channels and local market knowledge to launch new generics products. The product portfolio in our Generics division is diversified, with the top ten products accounting for only 17% of sales in our Generics division for the twelve months ended September 30, 2019. The top-ten selling products (and their respective therapeutic areas) in our Generics division for the twelve months ended September 30, 2019, were: Epoetin zeta (anemia), Tilidine/Naloxone (pain), Atorvastatin (cholesterol), Omeprazole (gastric ulcers/reflux), Pantoprazole (gastric ulcers/reflux), Diclofenac (pain, anti-inflammatory), Paracetamol (pain), Bisoprolol (high blood pressure), Fentanyl (Pain) and Enalapril (high blood pressure). The largest countries by sales in our Generics division for the twelve months ended September 30, 2019, were: Germany, Italy, Belgium, Spain, Serbia, Russia, France and Switzerland. We generated sales of €1,492.9 million and Management Adjusted EBITDA of €413.4 million in our Generics division for the twelve months ended September 30, 2019.

**Branded Products:** Our Branded Products division primarily includes branded OTC products, which are typically available without a prescription, such as sunscreens, cough and cold medicines, DNA tests, cosmetics, glucose meters and a small range of branded prescription generics. Our best-known brands include Ladival (sunscreens), Grippostad and Covonia (cough and cold) and APO-go (Parkinson’s disease). The market for products in our Branded Products division is generally characterized by market-driven pricing, with brand strength, marketing strategy and customer loyalty being important factors for success. Our portfolio of Branded Products is diversified, with the top ten products accounting for only 34% of sales in our Branded Products division for the twelve months ended September 30, 2019. The top-ten selling brands (and their respective therapeutic areas, prescription requirements and markets in which they

are sold) in our Branded Products division for the twelve months ended September 30, 2019, were: APO-go (Parkinson's disease, prescription required, available in 28 countries), Bortezomib (anti-cancer medication, prescription required multiple myeloma), Zoflora (household disinfection), Grippostad (colds, OTC, available in 28 countries), Aqualor (rhinitis, sore throats, available in 18 countries), Snup (rhinitis), Vitaprost (prostate diseases), Nizoral (anti-dandruff shampoo), Hirudoid (anti-coagulant) and Ladival (sun lotion). The largest countries by sales in our Branded Products division for the twelve months ended September 30, 2019, were: Germany, the United Kingdom, Russia, the United States and Italy. We generated sales of €1,032.7 million and Management Adjusted EBITDA of €281.8 million in our Branded Products division for the twelve months ended September 30, 2019.

## **Our Strengths**

### ***Organic Growth Underpinned by Attractive Market Fundamentals and Bolt-on Acquisitions***

Increasing demand for our Generics and Branded Products is driven by global growth factors in the pharmaceutical industry, including population growth, aging societies, increased incidences of chronic disease, advances in medical therapies and increasing self-medication and health awareness. According to IQVIA, the global generics market is expected to grow at a CAGR of 5% from 2019 to 2023, driven by these growth trends and increasing generics penetration. Generics penetration in the market for prescription products is partly driven by cost-containment regulation that incentivizes the use of generics to counteract the increasing cost pressure facing government-sponsored health programs. Another key driver of generics penetration is patent expirations. According to publicly available estimates, a wave of patent expirations in developed markets is expected to push originator products with sales of more than \$12.2 billion in aggregate into the generics market between 2019 and the end of 2022.

Given that our Branded Products division consists mostly of OTC products, growth in this division is additionally driven by factors influencing the self-payment and self-care market for health and well-being-related products. We expect demand for self-payment and self-care products to benefit from the ongoing trend among regulators to transfer prescription drugs to OTC status, which decreases the cost burden on the public health system and expands market opportunity for companies such as us that offer branded OTC products. Additionally, demand for OTC products is expected to be driven by rising income levels and the emerging trend toward greater health awareness, which we believe results from ongoing research on disease prevention, data access and increasing levels of education. According to IQVIA, the global OTC market is projected to grow at a CAGR of 5% from 2019 to 2023.

In addition to our organic growth, we have a strong record of growth through focused acquisitions. Examples of our most recent acquisitions in 2018 include the acquisition of the majority stake in BIOCEUTICALS, a German manufacturer of the active ingredient and finished product erythropoietin, being marketed to both third-party customers and STADA sales companies; the acquisition of Ketodol, the acquisition of the rights to the anti-dandruff shampoo Nizoral in Europe and the MENA region; the purchase of trademark rights to Hedrin in Belgium, Spain and Portugal, the product rights for APO-go in Germany and Scandinavia; and the repurchase of all European trademark rights to Ladival.

In addition, in 2019, we acquired from GlaxoSmithKline, through our British subsidiary Thornton & Ross, five skincare brands and a pediatric cough remedy in Europe as well as selected markets in APAC and Latin America.

### ***Well-Established Generics Player with Leading Positions in Our Generics Division and an Attractive Portfolio in Our Branded Products Division with High Growth Potential Through Enhanced Internationalization***

We are the fifth-largest generics company by sales in Europe as of December 31, 2018. In our Generics division, based on IQVIA data for the year ended December 31, 2018, we held a top-three market share in generics sales in Germany. We were also the fourth-largest player in Italy and the fourth largest in Spain. Moreover, in the year ended December 31, 2018, our Belgian Generics unit was the leader in the Belgian market, and we ranked third among national manufacturers in the Russian Generics market. Even though these markets are generally considered to be mature, there is significant room for increased penetration (by value) and further growth in generics in these markets. For example, according to IQVIA, generics penetration is below 30% in Belgium, 35% in Italy, 40% in Spain, and below 50% in France and Germany. The generics industry in Germany, Spain and Russia is expected to increase by a CAGR of 2%, 5% and 8% from 2019 to 2023, respectively. Continued growth in the generics industry in countries where we are already market leaders provides us with an opportunity to continue to grow sales in our Generics division.

We also benefit from an attractive portfolio of products in our Branded Products division, including category-leading therapies for cough and cold, medical skin care sun protection, vitamin deficiencies and many leading brands across therapeutic areas in Germany, the United Kingdom, Russia and other countries. For the year ended December 31, 2018, approximately 75% of sales of our top 30 products in our Branded Products division were of products with a top-three market position in their respective countries. Many of these leading products have been category leaders in their respective markets for many years, providing us with an opportunity to leverage our local marketing expertise to drive the internationalization of these leading brands into new markets and further grow sales in our Branded Products division.

#### ***Competitive Advantage Through Scale, Local Market Expertise and Established Relationships***

Our market-leading positions provide us with a competitive advantage over new entrants in our markets, bolstered by our scale and the breadth of our product portfolio, as well as our local market expertise and established distribution channels built on strong relationships with wholesalers and pharmacies.

The sale and distribution of pharmaceutical products such as branded and unbranded generics is regulated in most countries. Because such regulatory regimes are highly fragmented, competitors trying to enter a new market have to navigate a variety of complex regulatory requirements, tender and reimbursement regimes and distribution channels. This provides an advantage to existing, large-scale players with a long history of local expertise, such as us. We are highly familiar with the regulatory requirements in our key markets and have developed leading expertise in dealing with regulatory and distribution issues, which enables us to minimize the time and cost required to obtain regulatory product approvals while maximizing the number of countries we cover.

Germany, for example, operates a public tender system that covers the majority of prescription generics sales, which necessitates a modestly sized sales team with significant tender experience. In Russia, on the other hand, the distribution of prescription generics products is mostly patient-driven after the first prescription, which significantly increases the need for a larger sales force targeting patients indirectly via doctors. Our local market experience means that we are adept at navigating these and other regimes and are able to serve each market with a tailored sales and distribution approach. Building on our long history and our origins as a pharmacy cooperative, we have developed deeply ingrained relationships with the key distribution channels in our markets, which we believe are difficult to replicate. We successfully pursue different business models tailored to local markets' needs. Our sales forces are trained and experienced in identifying the right marketing strategy for each country, and we maintain a direct sales presence in approximately 30 countries, which allows us to stay close to our customers and distributors and internationalize successful brands.

#### ***Diversified Across Geographic Areas, Therapeutic Areas, Products and Brands***

We are diversified across geographic markets, products, therapeutic areas, customers and suppliers, thereby limiting our exposure to any single product, geographic area and reimbursement system. We market our products in approximately 120 countries with largely uncorrelated end-markets.

With more than 17,000 SKUs, we offer a highly diversified product portfolio and are not dependent on the success of any single product. In the twelve months ended September 30, 2019, the top-ten products by sales in our Generics division accounted for only 17% of Generics sales, and the top ten products in the Branded Products division accounted for only 34% of Branded Products sales. Our product offering is diversified across a large number of therapeutic areas and benefits from a high rate of new product launches, with a strong pipeline for the next four to five years.

The combination of our Generics and Branded Products divisions provides us with significant benefits in terms of diversification and synergies. The pricing of prescription generics is regulated, and volume demand is relatively independent of economic conditions, such that our Generics business has historically delivered strong and stable sales and cash generation. Our Branded Products division, on the other hand, faces fewer regulatory requirements. OTC products can be brought to the market more quickly, and pricing is unregulated and driven by competition. As a result, our highly recognizable brands, customer loyalty and the lack of competition in certain specialty areas provide for attractive pricing for products in our Branded Products division. Moreover, our scale and local market expertise allow us to respond relatively quickly to emerging consumer trends. Our presence in both divisions allows us to deepen our local market expertise and regulatory know-how; exploit economies of scale in production, packaging and marketing; and maintain our long-standing relationships with our distribution channels.

### ***Diversified and Efficient Manufacturing Footprint Across the Globe***

We have a cost-effective manufacturing footprint that is diversified across 18 manufacturing sites. Our own production facilities account for approximately 55% of our sales, with the balance being outsourced. Furthermore, approximately 69% of our production volume is manufactured in lower-cost countries in Eastern Europe, Asia and South America. This provides us with a relatively low-cost and highly flexible production base.

Our manufacturing sites are regularly audited and certified by supervisory bodies, and eleven of our sites are required to comply with stringent EU standards as they are located in Europe. Moreover, local production helps provide a natural hedge for currency fluctuations and regulatory restrictions, and at times is an advantage in the marketing of products in certain countries. We continuously seek to improve and manage our costs in order to increase our margins and potential for growth and stable cash flows, and we intend to further streamline and improve certain aspects of our manufacturing operations.

### ***Attractive Financial Profile with Strong Cash Flow Generation Reinforced by Successful Improvements in Working Capital Management***

We have a stable underlying business that has delivered consistent sales growth and resulted in high cash-flow generation in recent years. Our constant-currency sales increased at a CAGR of 6.5% from December 31, 2016 to September 30, 2019. We had Adjusted Cash Conversion of 85% and 81% for the year ended December 31, 2018, and the twelve months ended September 30, 2019, respectively. Although our Management Adjusted EBITDA margins have already improved (22% and 23% for the year ended December 31, 2018 and the twelve months ended September 30, 2019, respectively), we see significant additional upside in our ability to drive cost savings and further increase our margins. Our business has significant operating leverage and low ongoing liquidity requirements. We have historically experienced only modest seasonal net working capital movements, and management has maintained a high degree of discipline around capital expenditures. As a manufacturer of generics, we typically incur limited development expenses and no material research expenses.

### ***Highly Experienced Management Team Supported by Committed Sponsors***

We intend to draw from the market expertise, business relationships, knowledge and experience of our Sponsors, Bain Capital and Cinven. Both our Sponsors have strong healthcare expertise and an extensive and successful track record of investing in companies in the healthcare sector. For example, Bain Capital increased sales by 49% within two years and significantly increased the workforce at Bio Products Laboratory, creating a life sciences champion in the United Kingdom, while Cinven combined two large laboratory diagnostics companies, Synlab (Germany) and Labco (France), at the end of 2015, to form Synlab Group (headquartered in Germany), the European champion in laboratory diagnostics. In addition, Cinven in 2012 invested in Mercury Pharma and Amdipharm, and merged the two businesses to create AMCo, a major player in the fragmented generics market in the United Kingdom. Cinven's strategy centered on continued buy and build, further internationalization and applying best practice across both companies, and resulted in AMCo's sale to TSX/Nasdaq-listed Concordia Healthcare Corp for £2.3 billion in 2015. Both Sponsors also have a strong track record of driving cost savings and improvements in margins, while at the same time growing their portfolio companies both organically and through targeted acquisitions.

In addition, Peter Goldschmidt, our chief executive officer, and Mark Keatley, our chief financial officer, have significant experience in the global generics industry, where they have led highly successful growth strategies at major corporations. In particular, Mr. Goldschmidt has over 29 years of experience in the pharmaceutical industry in which he held various senior management positions in Europe, Asia and the United States for the Novartis Group. Mr. Goldschmidt was also the President of Sandoz USA and the Head of North America at Sandoz, where he rapidly expanded the company's generics and biosimilar business, generating revenues of over \$3 billion. He was also the global executive member for Central and Eastern Europe for Sandoz, leading Sandoz to a top-ranking market position in generics and rapidly growing its OTC business. Mr. Keatley served as chief financial officer of Actavis Group for seven years until its sale in 2012. He also has strong expertise in managing growth and transformation strategies in the generics industry and beyond. Mr. Keatley has most recently worked at Albrecht, Prock & Partners, a global strategy consulting firm with a focus on the pharmaceutical and healthcare industries. There, he has advised on multiple major engagements in the generics and broader healthcare sector, including



supporting Bain Capital and Cinven during the due diligence process in connection with the Takeover Offer.

STADA also continues to benefit from its deep bench of operational management, which will continue to bring to bear its deep local experience with global scale and expertise.

### **Our Strategy**

We and the Sponsors have developed the following strategies:

#### ***Maintain and Grow Market-Leading Positions by Leveraging Scale, Highly Recognizable Brands and Industry Growth Factors***

As an established market leader, we intend to continue to use our scale and highly recognizable brands to reinforce and grow our leading market positions in the key countries and categories in which we operate. We believe that we are well positioned to benefit from global growth factors in the pharmaceutical industry, and as a large player highly diversified across geographic region, products, brands and production, we intend to continue to leverage our scale and broad local expertise to support our base business, improve our margins and expand our geographic footprints along with the markets in which we operate.

#### ***Selectively Consider Accretive Acquisition Opportunities***

We have a strong track record of growth, both organically and through focused acquisitions, and we intend to continue this growth in the future, as evidenced by both the Takeda Acquisition and the Walmark Acquisition which we estimate have a combined EBITDA multiple of 8.5x (based on an estimated combined synergized EBITDA of €80.9 million). Examples of our most recent acquisitions include the acquisition of a majority stake in BIOCEUTICALS, a German manufacturer of the active ingredient and finished product erythropoietin, which is marketed to both third-party customers and STADA sales companies, the acquisition of Ketodol, the acquisition of the rights to the anti-dandruff shampoo Nizoral in Europe and the MENA region, the purchase of trademark rights to Hedrin in Belgium, Spain and Portugal, the product rights for APO-go in Germany and Scandinavia, and the repurchase of all European trademark rights to Ladival. In addition, in 2019, we acquired from GlaxoSmithKline, through our British subsidiary Thornton & Ross, five skin care brands and a pediatric cough remedy in Europe as well as selected markets in APAC and Latin America. We intend to continue to selectively explore strategic acquisitions in the global generics and OTC markets, with a focus on targets that allow us to utilize our existing platform and realize meaningful synergies.

#### ***Continue to Grow Our Business, Including by Internationalizing Successful Brands in Our Branded Products Division***

The products in our Generics division comprise our core business, providing us with a stable sales base and strong cash generation. We see significant potential to expand sales growth in this division by expanding in markets with relatively low penetration rates and supplementing our existing portfolio with biosimilars, while also benefiting from global growth trends in the pharmaceutical industry.

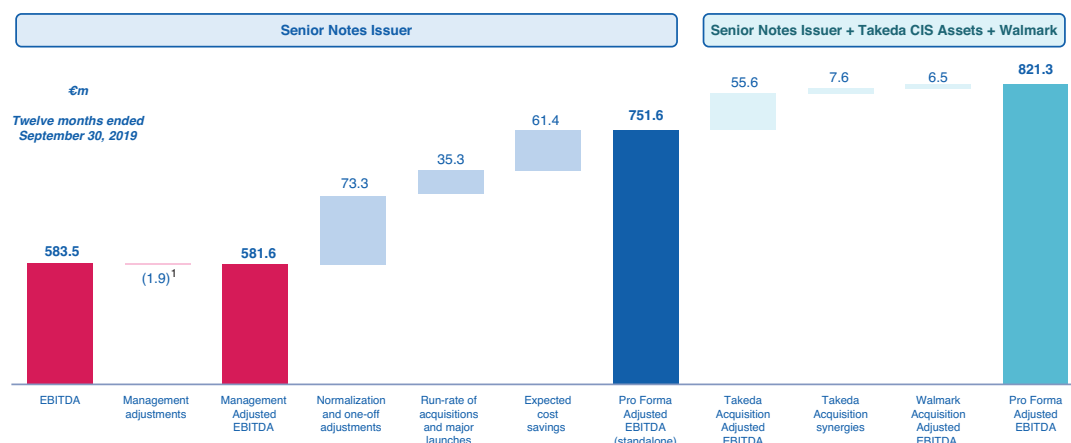
At the same time, we intend to build on our key brands and to grow our Branded Products division by strengthening our market shares in our existing geographic region and introducing our local category leaders into new, international markets. Our intention is to continue to gradually increase the percentage of sales and EBITDA generated by our Branded Products division. In addition, we plan to continue developing products for specialty areas, which tend to benefit from attractive pricing, to further expand the scope and improve the profitability of our Branded Products division.

#### ***Increase Profitability by Continuing and Expanding upon Management's Strategic Cost Savings Initiatives***

In the last quarter of 2017, our management established a transformation program to improve our operating efficiency and profitability (the "Transformation Program"). The Transformation Program targeted aggregate run-rate cost-savings of more than €200 million, which we aimed to realize through a number of strategic cost saving initiatives. Having commenced the initial implementation phase of the Transformation Program at the end of 2017, we had realized (i) approximately €52 million of cumulative cost savings in the year ended December 31, 2018, and (ii) approximately €92 million of cumulative cost savings in the twelve months ended September 30, 2019. We are continuing the rollout of our



Transformation Program and believe we are currently on track to realize additional incremental cost savings of approximately €16.9 million in the year ending December 31, 2019, which would bring our cumulative cost savings to €108.9 million. Through the next phase of our Transformation Program, we expect, based on certain assumptions and our current estimates, to realize additional incremental cost savings of approximately €44.5 million in the coming years. See “*Forward-Looking Statements*” and “—*Summary Consolidated Financial and Other Information—Other Consolidated Financial and Pro Forma Data.*”



1. Total Management Adjustments include (i) purchase price allocation of €3.6m, (ii) STADA takeover consulting fees of €7.4m and (iii) other adjustments of €(12.9)m

In terms of cost of sales, management has put in place initiatives to improve direct product procurement by renegotiating supply contracts with our highly fragmented supply base and to create operational improvements in manufacturing through insourcing certain third-party manufactured products and streamlining product lines, while also improving our supply chain setup and organization through hub, route and order size optimization. For general and administrative expenses, we believe we can achieve cost savings by unifying our IT landscape across our footprint through consolidating IT systems and contracts, reducing non-personnel general and administrative spending, and optimizing advisory and supervisory board costs, while also optimizing our sales force structures by streamlining our legal entities. In the nine months ended September 30, 2019, we invested approximately €32 million to implement the Transformation Program and develop a five-year strategy for the implementation of future cost-saving measures. Our additional cost-saving measures target our cost of goods sold, selling, general and administrative expenses, and research and development expenses, as well as improved efficiency in support functions and customer service operations.

### ***Maintain Financial Discipline to Support Deleveraging***

We intend to maintain a high focus on continuing to improve cash flows, supported by, among other things, rapid EBITDA growth resulting from management’s and the Sponsors’ cost-saving initiatives on top of global growth trends in the pharmaceutical industry. For our business, which benefits from significant operating leverage and low ongoing liquidity requirements, we intend to maintain discipline in capital expenditures broadly in line with historical capital expenditures. We expect improved cash flows and discipline in capital expenditures to provide a strong liquidity cushion for our ongoing business needs, which was further bolstered by our €400 million Revolving Credit Facility and the long-dated maturity profile of our other principal sources of debt financing. In terms of risk management, we are partly naturally hedged for transaction currency fluctuations where our production facilities are located in the same country as the end-consumer, but we also intend to continue to implement exchange rate hedging policies through natural hedge strategies and derivatives. As a result, we believe that the successful execution of our strategies will allow us to progressively de-lever and further improve cash flow generation. Notwithstanding our intention to de-lever and our focus on organic growth, we also intend to selectively consider acquisition opportunities as and when they arise.

### **The Transactions**

#### ***The Takeda Acquisition***

On November 4, 2019, we entered into the Takeda Acquisition Agreement with Takeda to acquire the Takeda CIS Assets in consideration for a purchase price of \$610.0 million (after giving effect to a purchase

price reduction of \$50.0 million for working capital relating to the Takeda CIS Assets that is retained by Takeda), subject to a post-closing adjustment to the extent inventory levels diverge from a normalized level. We intend to finance the Takeda Acquisition with the proceeds from the Offering of the Takeda Temporary Notes together with borrowings under Facility E (if required). We currently expect the Takeda Acquisition to complete in the first quarter of 2020. The consummation of the Takeda Acquisition is subject to customary closing conditions. If these conditions are not satisfied on or prior to a certain longstop date, the Takeda Acquisition Agreement may be terminated. Should the Takeda Acquisition not be consummated, the Takeda Temporary Notes will be subject to a Special Mandatory Redemption. See “—*The Escrow Account*” below and “*Use of Proceeds*.”

We expect that the Takeda Acquisition will position us as the leading provider of OTC pharmaceuticals in Russia and further diversify our Branded Products portfolio through the addition of patent-protected prescription products, which we believe have significant growth potential. We believe that following our acquisition of the Takeda CIS Assets, we will move from being the third-largest to being the largest provider of OTC pharmaceuticals in Russia by sales. The Takeda CIS Assets include seven highly recognizable OTC brands (including Calcium, Magnyl, Probiotica, Vitrum, Xylometazoline (Xymelin), Zycomb and Artra). In addition, the Takeda CIS Assets include 14 highly recognizable brands of prescription medicines (Alogliptin, Amitriptylin, Azilsartanmedoxomil (Edarbi), Britomar, Bromhexin, Ebrantil, Eneas, Enanorm, Metronidazol, Myorix, Prednisolon, Trinomia, Warfarin and Xefo) in the cardiovascular, diabetes and general medicine categories. Two of these branded prescription products still benefit from patent-protections, which we expect to facilitate strong and resilient sales growth in the near term. As part of the Takeda Acquisition we will also acquire contracts with more than 500 point-of-sale representatives who will bolster our local expertise and sales network in the Russian and CIS markets.

For the twelve months ended June 30, 2019, a third-party due diligence report estimates that the Takeda CIS Assets generated EBITDA of approximately €55.6 million. In addition, based on such report, we expect that we will be able to implement a number of cost saving initiatives following the Takeda Acquisition Completion Date, which will create estimated run-rate synergies of approximately €7.6 million.

#### *The Escrow Account*

Pending the consummation of the Takeda Acquisition, the Initial Purchasers will deposit the gross proceeds from the Offering of Takeda Temporary Notes into the Escrow Account in the name of the Issuer. The Escrow Account will be controlled by the Escrow Agent and will be pledged on a first-ranking basis in favor of the Trustee on behalf of the holders of the Takeda Temporary Notes.

The release of the escrow proceeds from the Escrow Account is subject to the satisfaction of certain conditions (the “Escrow Release Conditions”), including that the funds required to pay the consideration for the Takeda Acquisition will be applied promptly (and in any event within two business days). See “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption*.” The occurrence of the Takeda Acquisition Completion Date is subject to customary closing actions. If the conditions to the release of the escrowed proceeds have not been satisfied on or prior to the Longstop Date, or upon the occurrence of certain other events, the Takeda Temporary Notes will be subject to a Special Mandatory Redemption. The Special Mandatory Redemption Price will be equal to 100% of the aggregate issue price of the Takeda Temporary Notes plus accrued and unpaid interest and additional amounts, if any, from the New Issue Date to, but excluding, the Special Mandatory Redemption Date. See “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption*” and “*Risk Factors—Risks Relating to the Transactions—If the conditions precedent to the release of proceeds from the Escrow Account are not satisfied, the Senior Secured Notes Issuer will be required to redeem the Takeda Temporary Notes, which means that you may not obtain the return you expect on the Takeda Temporary Notes*.”

#### *The Walmark Acquisition*

On November 3, 2019, we entered into the Walmark Acquisition Agreement with the Walmark Vendors to acquire all of the issued and outstanding share capital of Walmark a.s. (“Walmark” and, together with its subsidiaries, the “Walmark Group”) for an aggregate enterprise value of approximately €137.0 million. We intend to finance the Walmark Acquisition with the proceeds from the Offering of the Walmark Tap Notes together with borrowings under Facility E (if required). We currently expect the Walmark Acquisition to complete in the first quarter of 2020. The consummation of the Walmark Acquisition is subject to certain conditions, including approval by the competent competition authorities in Bulgaria, Czech Republic, Hungary and Romania, and the performance of certain closing actions. If these conditions are not satisfied

on or prior to a certain longstop date, the Walmark Acquisition Agreement will terminate and the proceeds from the Offering of the Walmark Tap Notes will be used for general corporate purposes.

Walmark is a leading OTC and food supplement provider in Central Europe and the largest independent Central Eastern European platform for OTC products by sales, with a direct presence in nine countries and exports to 39 countries. Walmark has established a strong presence in Central Europe, with a modern manufacturing facility in Trinec, Czech Republic of 3,300 square meters (currently utilizing only approximately 25% of its capacity) and supported by more than 260 sales representatives. Accordingly, we expect that the Walmark Acquisition will further diversify our manufacturing footprint in Europe and increase our scale to turn STADA into a strong competitor in the Central European OTC market.

For the twelve months ended May 31, 2019, we estimate based on information provided to us by the Walmark Vendor that the Walmark Group generated EBITDA of approximately €6.5 million. In addition, based on our estimates, we expect that we will be able to generate substantial cost savings and synergies as a result of the Walmark Acquisition.

### **The Senior Secured Notes Issuer**

The Senior Secured Notes Issuer is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany. The Senior Secured Notes Issuer is indirectly controlled by the Sponsors. The Senior Secured Notes Issuer is registered with the commercial register of the local court (*Amtsgericht*) of Frankfurt am Main under number HRB 109897 and its business address is Stadastraße 2-18, 61118 Bad Vilbel, Germany.

### **Our Principal Shareholders**

#### ***Bain Capital***

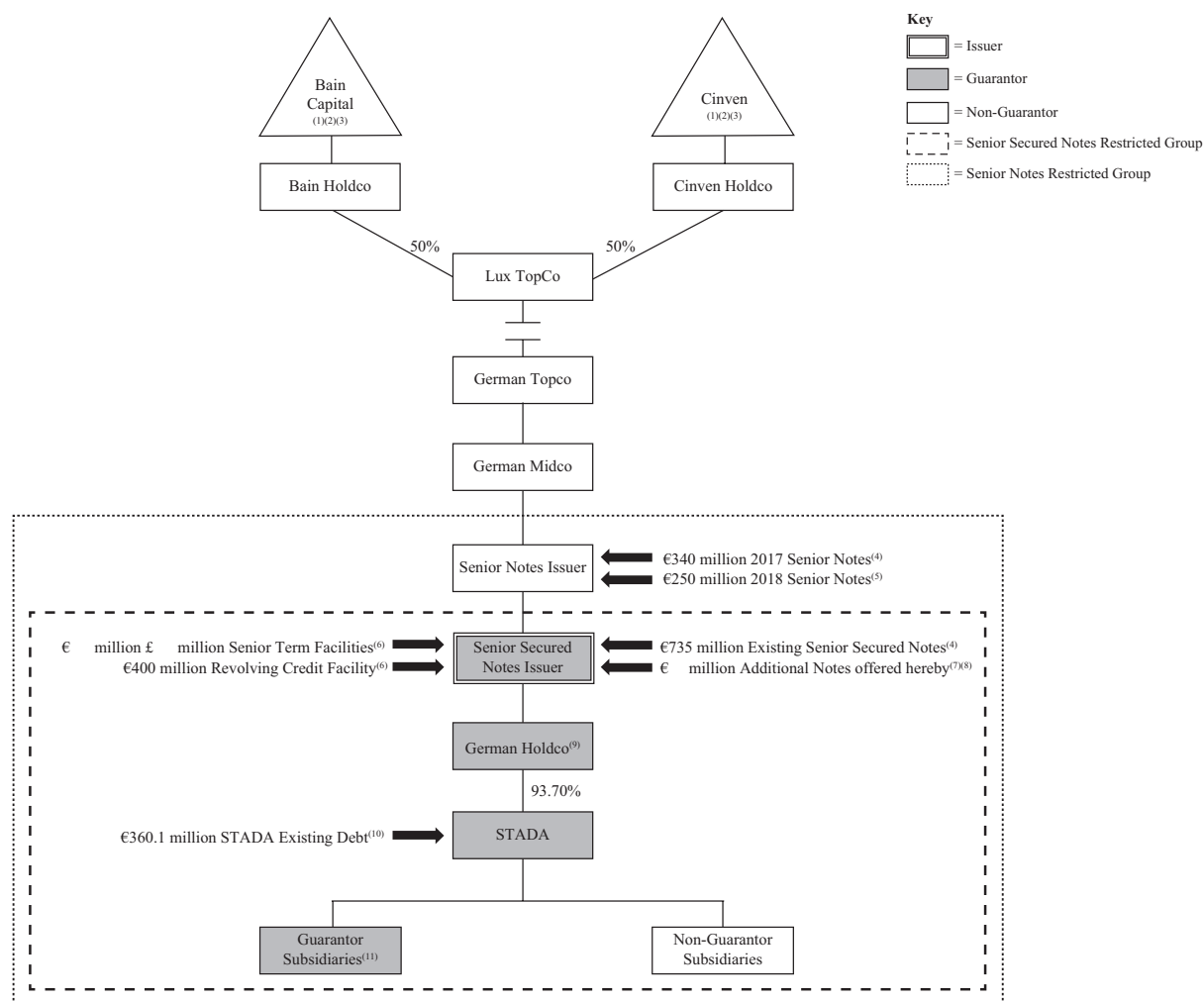
Bain Capital is a leading global private investment firm that advises and manages capital across several asset classes, including private equity, venture capital, public equity and leveraged debt assets. Since its inception in 1984, Bain Capital and its affiliates have completed over 500 transactions and have made investments in more than 330 companies in a broad range of industries, including healthcare, consumer/retail financial and business services, industrials, and technology, media and telecommunications. Bain Capital's global team of approximately 250 investment professionals creates value for its portfolio companies through its global platform and depth of expertise, managing approximately \$105 billion in total and leveraging the firm's shared platform to capture opportunities in strategic areas of focus. The firm has a strong track record of investments in the healthcare industry, including its investments in Warner Chilcott, IQVIA, navicare, QuVa Pharma, beacon health options, Bio Products Laboratory, Centrient, Cerevel, US Renal Care, and the joint \$34 billion take-private transaction of Hospital Corporation of America, as well as a number of market-leading companies globally, such as Apple Leisure Group, Bloomin Brands, Burger King, Burlington Coat Factory, Dollarama, Dunkin Brands, Jack Wolfskin, Jupiter Shop Channel, Maisons Du Monde, Samsonite and Verisure/Securitas Direct. Bain Capital has investors from across the world that include sovereign wealth funds, public pension funds, foundations, insurance companies, family offices, high-net-worth individuals and funds of funds. Headquartered in Boston, Bain Capital and its affiliates have offices in Chicago, Dublin, Guangzhou, Hong Kong, London, Luxembourg, Madrid, Melbourne, Mumbai, Munich, New York, Palo Alto, San Francisco, Seoul, Shanghai, Sydney and Tokyo.

#### ***Cinven***

Cinven is a leading international private equity firm with offices in London, Frankfurt, Guernsey, Hong Kong, Luxembourg, Madrid, Milan, New York and Paris. Since 1988, Cinven funds have invested in over 130 companies and led transactions totaling more than €100 billion. The firm's investment focus is on six key sectors: healthcare, business services, consumer, financial services, industrials, and technology, media and telecommunications. Cinven's investment strategy targets companies that are well positioned in their respective markets and require an equity investment of €200 million or more. Using its long-standing experience and proven economic growth strategies (such as buy-and-build), Cinven works closely with management teams to facilitate growth and help its portfolio companies reach their full potential. Cinven has deep expertise and an extensive and successful track record of investing in the healthcare sector, including its investments in Synlab, Bioclinica, Medpace, AMCo, Sebia and Phadia.

## SUMMARY CORPORATE AND FINANCING STRUCTURE

The following simplified chart sets forth certain aspects of our corporate and financing structure, adjusted to give effect to the Offering. Please see “*Capitalization*,” “*Description of Certain Financing Arrangements*,” “*Description of the Senior Secured Notes*” and “*Description of the Temporary Notes*” for more information. All entities shown below are 100% owned unless indicated. Actual amounts may vary from estimated amounts depending on several factors. The holdings of the Sponsors in Bain Holdco and Cinven Holdco include minority holdings of certain co-investors, including Partners Group AG.



- (1) As of the date of this offering memorandum, the Sponsors indirectly control (through intermediate holding companies) 93.70% of STADA's issued share capital. See “*Principal Shareholders*.”
- (2) The Sponsors established a management equity plan at Lux TopCo for the benefit of STADA's management. See “*Management—Share Ownership*.”
- (3) In connection with the STADA Acquisition, the Sponsors provided an equity contribution in the form of equity and quasi-equity (including common and preferred equity instruments and deeply subordinated shareholder loans), the proceeds of which have been contributed to the Senior Notes Issuer through intermediate holding companies. See “*Presentation of Financial Information—Financial Information*” and the Financial Statements included elsewhere herein.
- (4) On September 29, 2017, the Senior Secured Notes Issuer issued €735.0 million aggregate principal amount of 3½% Senior Secured Notes due 2024, and the Senior Notes Issuer issued €340.0 million aggregate principal amount of 5% Senior Notes due 2025. The gross proceeds from the offering of the Existing Senior Secured Notes and the 2017 Senior Notes, together with cash on hand, were used to refinance amounts that were incurred under the bridge facilities which the Issuers had obtained in connection with the STADA Acquisition and to pay the costs, fees and expenses incurred in connection with the offering of the Existing Notes.
- (5) On December 4, 2018, the Senior Notes Issuer issued €250.0 million in aggregate principal amount of 7¼% Senior Notes due 2025. The gross proceeds from the offering of the 2018 Senior Notes, together with cash on hand, were used to (i) repay in full the senior bridge facility that was used to finance part of the purchase price for the acquisition by German Holdco of additional common shares in STADA pursuant to the delisting tender offer made by German Holdco for any and all outstanding STADA

Shares not directly held by German Holdco and (ii) to pay costs, fees and expenses incurred in connection with the offering of the 2018 Senior Notes.

- (6) In connection with the STADA Acquisition, the Senior Secured Notes Issuer entered into the Senior Secured Credit Facilities Agreement. The Senior Secured Credit Facilities Agreement currently provides for committed facilities of up to €            million and £            million in the form of (i) Facility B1 in an amount of €405.6 million; (ii) Facility B2 in an amount of €235.0 million; (iii) Facility C (EUR) in an amount of €759.4 million; (iv) Facility C (GBP) in an amount of £266.0 million; (v) Facility D in an amount of €705.0 million; (vi) the Facility E in an amount of €            million; and (vii) the Revolving Credit Facility in an amount of €400.0 million. All of the Senior Secured Notes Guarantors guarantee the Senior Secured Credit Facilities on a senior basis, *pari passu* with the Senior Secured Notes Guarantees and senior to the Senior Notes Guarantees. The Senior Secured Credit Facilities, the Senior Secured Notes (other than the Takeda Temporary Notes) and certain hedging obligations are secured on a first-priority basis by (v) a pledge of the shares in the Senior Secured Notes Issuer, a security assignment of any structural intercompany receivables owed by the Senior Secured Notes Issuer to the Senior Notes Issuer and a pledge of the material bank accounts of the Senior Secured Notes Issuer; (w) a pledge of the shares in German Holdco, a security assignment of any structural intercompany receivables owed by German Holdco to the Senior Secured Notes Issuer and a pledge of the material bank accounts of German Holdco; (x) a pledge of the STADA Shares acquired by the Senior Secured Notes Issuer or German Holdco and a security assignment of any structural intercompany receivables owed by STADA to the Senior Secured Notes Issuer or German Holdco; (y) a security assignment of any structural intercompany receivables owed to the Senior Secured Notes Issuer by any Material Subsidiary (as defined in the Senior Secured Credit Facilities Agreement); and (z) pledges of the shares in each Senior Secured Notes Guarantor and Laboratorio STADA, S.L.U. and the material bank accounts (subject to certain exclusions based on the Agreed Security Principles) of each Senior Secured Notes Guarantor. The existing Senior Secured Credit Facilities have been utilized by the Senior Secured Notes Issuer, German Holdco and certain restricted subsidiaries. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*” and “*Description of Certain Financing Arrangements—Intercreditor Agreement*.” As of the date of this offering memorandum, each of Facility B1, Facility B2, Facility C (EUR), Facility C (GBP) and Facility D was drawn in full, whereas the amount available for drawing under the Revolving Credit Facility and Facility E was €400.0 million and €            million, respectively. The commitments made available under these facilities may be increased in the future. We intend to partially finance the Acquisitions with drawings from Facility E (if required).
- (7) The Senior Secured Notes Issuer is offering €            million in aggregate principal amount of Additional Notes, initially comprising €            million in aggregate principal amount of Walmark Tap Notes and €            million in aggregate principal amount of Takeda Temporary Notes. The Senior Secured Notes Issuer will issue the Walmark Tap Notes as additional notes under the Senior Secured Notes Indenture pursuant to which the Existing Senior Secured Notes were issued. The Walmark Tap Notes will have the same ISIN and common codes as the Existing Senior Secured Notes, provided that the Regulation S Walmark Tap Notes will initially be issued bearing a temporary ISIN and common code. On and from the consolidation date, the Regulation S Walmark Tap Notes will be consolidated and fully fungible with the Existing Senior Secured Notes sold outside the United States pursuant to Regulation S. The consolidation date will be 40 days after the later of (i) the date of the original issuance of the Regulation S Walmark Tap Notes offered hereby and (ii) the date on which the Regulation S Walmark Tap Notes were first offered to persons other than distributors as defined in Regulation S. See “*Description of the Senior Secured Notes*.” The Senior Secured Notes Issuer will issue the Takeda Temporary Notes under the Takeda Temporary Indenture. The Takeda Temporary Notes will have the same terms and conditions as the Tap Notes, except as described under “*Description of the Temporary Notes*.” Subject to the provisions in respect of a Special Mandatory Redemption, on the Takeda Temporary Notes Exchange Date, the Takeda Temporary Notes will automatically be exchanged for an equal aggregate principal amount of Takeda Tap Notes to be issued by the Senior Secured Notes Issuer under the Senior Secured Notes Indenture governing the Existing Senior Secured Notes. The Tap Notes will have the same terms and conditions as the Existing Senior Secured Notes and will constitute a single class with the Existing Senior Secured Notes for all purposes under the Senior Secured Notes Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. However, if the stated principal amount of the Tap Notes exceeds their issue price by an amount equal to or greater than a statutorily defined *de minimis* amount, they will not, for U.S. federal income tax purposes, be fungible with, and will not form a single series with, the Existing Senior Secured Notes, and will be issued and trade with different ISINs and common codes than those assigned to the Existing Senior Secured Notes. See “*Certain Tax Consequences*.”
- (8) On the New Issue Date, the Takeda Temporary Notes will be secured by a first-ranking pledge over the Escrow Account. On the New Issue Date, in the case of the Walmark Tap Notes, and as of the Takeda Temporary Notes Exchange Date, in the case of the Takeda Tap Notes, and, in each case, subject to the Agreed Security Principles, the Tap Notes and the Senior Secured Notes Guarantees thereof will be secured on a first-priority basis by security interests in the Senior Secured Notes Collateral. The Senior Secured Notes Collateral also secures the Senior Secured Credit Facilities and certain hedging obligations on a first-priority basis. A portion of the Senior Secured Notes Collateral, the Shared Collateral, also secures the Senior Notes on a second-priority basis. See “*The Offering—Collateral*.” The validity and enforceability of the Senior Secured Notes Guarantees and the security and the liability of each Senior Secured Notes Guarantor and security provider will be subject to certain limitations. See “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests*.” The security interests in favor of the Tap Notes and the Senior Secured Notes Guarantees may be released under certain circumstances.
- (9) On August 25, 2017, the Senior Secured Notes Issuer incorporated German Holdco as its wholly owned subsidiary and contributed all of the STADA Shares held by it as of such date to German Holdco and it also contributed any STADA Shares it subsequently acquired to German Holdco. German Holdco also wholly owns Nidda Healthcare Beteiligungserwerbs-und-verwaltungs GmbH, which is a holding, management and finance company with no material business operations, assets or liabilities.
- (10) As of September 30, 2019, the book value of the aggregate principal amount of STADA Existing Debt was (i) €266.5 million of non-current obligations under the 2022 Notes, (ii) €48.4 million of non-current obligations under various promissory notes



(*Schuldscheindarlehen*), (iii) €4.0 million of current obligations under various promissory notes (*Schuldscheindarlehen*) and (iv) €40.2 million of bank loans.

- (11) We expect that our non-Guarantor subsidiary, JSC Nizhpharm (Russia), will acquire the Takeda CIS Assets, whereas STADA, a Guarantor, will acquire Walmark. For the twelve months ended September 30, 2019, the Senior Secured Notes Guarantors accounted for 19% of the consolidated sales and 40% of the consolidated EBITDA of the STADA Group. In addition, as of September 30, 2019, the Senior Secured Notes Guarantors accounted for 44% of the consolidated assets of the STADA Group. The validity and enforceability of the Senior Secured Notes Guarantees and the security interests and liability of each Senior Secured Notes Guarantor under a Senior Secured Notes Guarantee are subject to the limitations described in “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.*”

## THE OFFERING

The following is a brief summary of certain terms of the Offering of the Additional Notes. It may not contain all the information that is important to you. For additional information regarding the Additional Notes and the Senior Secured Notes Guarantees, see “*Description of the Senior Secured Notes*,” “*Description of the Temporary Notes*” and “*Description of Certain Financing Arrangements—Intercreditor Agreement*.”

**Issuer** ..... Nidda Healthcare Holding GmbH.

### Notes Offered:

Takeda Temporary Notes ..... €            million in aggregate principal amount of 3½% Senior Secured Notes due 2024 (the “Takeda Temporary Notes”) issued by the Senior Secured Notes Issuer under the Takeda Temporary Indenture.

The Takeda Temporary Notes will have the same terms and conditions as the Existing Senior Secured Notes, except as described under “*Description of the Temporary Notes*.”

On the Takeda Temporary Notes Exchange Date, the Takeda Temporary Notes will automatically be exchanged for an equal aggregate principal amount of additional 3½% Senior Secured Notes due 2024 (the “Takeda Tap Notes” and, together with the Takeda Temporary Notes, the “Takeda Notes”) to be issued by the Senior Secured Notes Issuer under the Senior Secured Notes Indenture.

The Takeda Tap Notes will have the same terms and conditions as the Existing Senior Secured Notes and will constitute a single class with the Existing Senior Secured Notes for all purposes under the Senior Secured Notes Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. However, if the stated principal amount of the Takeda Tap Notes exceeds their issue price by an amount equal to or greater than a statutorily defined *de minimis* amount, they will not, for U.S. federal income tax purposes, be fungible with, and will not form a single series with, the Existing Senior Secured Notes, and will be issued and trade with different ISINs and common codes than those assigned to the Existing Senior Secured Notes.

Walmark Tap Notes ..... €            million in aggregate principal amount of 3½% Senior Secured Notes due 2024 (the “Walmark Tap Notes”) issued by the Senior Secured Notes Issuer under the Senior Secured Notes Indenture.

The Walmark Tap Notes will have the same terms and conditions as the Existing Senior Secured Notes and will constitute a single class with the Existing Senior Secured Notes for all purposes under the Senior Secured Notes Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. However, if the stated principal amount of the Walmark Tap Notes exceeds their issue price by an amount equal to or greater than a statutorily defined *de minimis* amount, they will not, for U.S. federal income tax purposes, be fungible with, and will not form a single series with, the Existing Senior Secured Notes, and will be issued and trade with different ISINs and common codes than those assigned to the Existing Senior Secured Notes.

**Issue Date** ..... , 2019.

**Issue Price:**

Walmart Tap Notes . . . . . %, plus accrued and unpaid interest from September 30, 2019.

Takeda Temporary Notes . . . . . %, plus accrued and unpaid interest from September 30, 2019.

**Maturity Date** . . . . . September 30, 2024.

**Interest Rate** . . . . . 3.50% per annum.

**Interest Payment Dates** . . . . . Interest on the Additional Notes will be payable semi-annually in arrears on March 30 and September 30 of each year, commencing on March 30, 2020.

**Form and Denomination** . . . . . The Additional Notes will only be issued in fully registered form and in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. Additional Notes in denominations of less than €100,000 will not be available.

The Walmart Tap Notes sold to non-U.S. persons outside the United States pursuant to Regulation S of the U.S. Securities Act (the “Regulation S Walmart Tap Notes”) will initially be issued bearing a temporary ISIN and common code. On and from the consolidation date, the Regulation S Walmart Tap Notes will be consolidated and fully fungible with the Existing Senior Secured Notes sold outside the United States pursuant to Regulation S. The consolidation date will be 40 days after the later of (i) the date of the original issuance of the Regulation S Walmart Tap Notes offered hereby and (ii) the date on which the Regulation S Walmart Tap Notes were first offered to persons other than distributors (as defined in Regulation S). See “*Description of the Senior Secured Notes.*”

**Guarantors** . . . . . The Takeda Temporary Notes will not be guaranteed.

On the New Issue Date, in the case of the Walmart Tap Notes, and as of the Takeda Temporary Notes Exchange Date, in the case of the Takeda Tap Notes, the Tap Notes will be guaranteed by the Senior Secured Notes Guarantors. The obligations of each Senior Secured Notes Guarantor will be limited as described under “*Description of the Senior Secured Notes—Senior Secured Notes Guarantees.*” We do not expect Walmart will guarantee the Senior Secured Notes.

Each Senior Secured Notes Guarantee will be subject to certain contractual and legal limitations. See “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests*” and “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—Corporate benefit, financial assistance laws, capital maintenance and other limitations on the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral may adversely affect the validity and enforceability of the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral.*”

Each Senior Secured Notes Guarantee will be subject to the terms of the Intercreditor Agreement. See “*Description of Certain Financing Arrangements—Intercreditor Agreement.*”

For the twelve months ended September 30, 2019, the Senior Secured Notes Guarantors accounted for 19% of the consolidated sales and 40% of the consolidated EBITDA of the STADA Group. In addition, as of September 30, 2019, the Senior Secured Notes Guarantors accounted for 44% of the consolidated assets of the STADA Group. Each Senior Secured Notes Guarantee will be subject to release under certain circumstances. See “*Description of the Senior Secured Notes—Senior Secured Notes Guarantees—Senior Secured Notes Guarantee Release.*”

**Ranking of the Additional Notes and  
the Senior Secured Notes  
Guarantees . . . . .**

The Takeda Temporary Notes will:

- be general senior obligations of the Senior Secured Notes Issuer;
- rank *pari passu* in right of payment with any existing and future indebtedness of the Senior Secured Notes Issuer that is not subordinated in right of payment to the Takeda Temporary Notes (including obligations under the Senior Secured Credit Facilities Agreement, the Senior Secured Notes, the Senior Notes Guarantees and certain hedging obligations);
- rank senior in right of payment to all existing and future indebtedness of the Senior Secured Notes Issuer that is expressly subordinated in right of payment to the Takeda Temporary Notes;
- be effectively subordinated to any existing or future indebtedness or obligation of the Senior Secured Notes Issuer and its subsidiaries that is secured by property and assets that do not secure the Takeda Temporary Notes, to the extent of the value of the property and assets securing such indebtedness (including all existing secured debt and the Walmark Tap Notes); and
- be structurally subordinated to any existing or future indebtedness of the subsidiaries of the Senior Secured Notes Issuer, including their obligations to trade creditors.

On the New Issue Date, in the case of the Walmark Tap Notes, and as of the Takeda Temporary Notes Exchange Date, in the case of the Takeda Tap Notes, and, in each case, subject to the Agreed Security Principles, the Tap Notes will:

- be general senior obligations of the Senior Secured Notes Issuer;
- rank *pari passu* in right of payment with any existing and future indebtedness of the Senior Secured Notes Issuer that is not subordinated in right of payment to the Senior Secured Notes (including obligations under the Senior Secured Credit Facilities Agreement and certain hedging obligations);
- rank senior in right of payment to all existing and future indebtedness of the Senior Secured Notes Issuer that is expressly subordinated in right of payment to the Senior Secured Notes, including the Senior Notes Guarantees;

- be effectively subordinated to any existing or future indebtedness or obligation of the Senior Secured Notes Issuer and its subsidiaries that is secured by property and assets that do not secure the Senior Secured Notes, to the extent of the value of the property and assets securing such indebtedness or obligation; and
- be structurally subordinated to any existing or future indebtedness of the subsidiaries of the Senior Secured Notes Issuer that are not Senior Secured Notes Guarantors, including their obligations to trade creditors.

**Collateral** . . . . . On the New Issue Date, the Takeda Temporary Notes will be secured on a first-priority basis by the Escrow Charge.

On the New Issue Date, in the case of the Walmark Tap Notes, and as of the Takeda Temporary Notes Exchange Date, in the case of the Takeda Tap Notes, and, in each case, subject to the Agreed Security Principles, the Tap Notes and the Senior Secured Notes Guarantees thereof will be secured on a first-priority basis by (collectively, the “Senior Secured Notes Collateral”):

- a pledge of the shares in the Senior Secured Notes Issuer, a security assignment of any structural intercompany receivables owed by the Senior Secured Notes Issuer to the Senior Notes Issuer and a pledge of the material bank accounts of the Senior Secured Notes Issuer;
- a pledge of the shares in German Holdco, a security assignment of any structural intercompany receivables owed by German Holdco to the Senior Secured Notes Issuer and a pledge of the material bank accounts of German Holdco;
- a pledge of the STADA Shares acquired by the Senior Secured Notes Issuer or German Holdco and a security assignment of any structural intercompany receivables owed by any material company (as defined in the Senior Secured Credit Facilities Agreement) to the Senior Secured Notes Issuer or German Holdco; and
- pledges of the shares in each Senior Secured Notes Guarantor and Laboratorio STADA, S.L.U. and material bank accounts of each Senior Secured Notes Guarantor.

The security interests may be limited by applicable law or subject to certain defenses that may limit their validity and enforceability. For more information on the security interests granted, see “*Description of the Senior Secured Notes—Security*,” and for more information on potential limitations to the security interests, see “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests*” and “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes*.”



The security interests may be released under certain circumstances. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—There are circumstances other than the repayment or discharge of the Senior Secured Notes under which the Senior Secured Notes Collateral securing the Senior Secured Notes will be released automatically without your consent or the Trustees or the Security Agent obtaining your further consent,*” “*Description of Certain Financing Arrangements—Intercreditor Agreement,*” and “*Description of the Senior Secured Notes—Security—Release of Liens.*”

**Escrow of Proceeds; Special**

**Mandatory Redemption . . . . .** Concurrently with the closing of the Offering, the Initial Purchasers will deposit the gross proceeds of the Takeda Temporary Notes into the Escrow Account pending consummation of the Takeda Acquisition. The Escrow Account will be controlled by the Escrow Agent and pledged on a first-ranking basis in favor of the Trustee on behalf of the holders of the Takeda Temporary Notes. Upon delivery to the Trustee and the Escrow Agent of an officer’s certificate stating that the conditions to the release of the proceeds from escrow are or, promptly following release will be satisfied, the escrow proceeds will be released to the Senior Secured Notes Issuer and utilized as described in “*The Transactions,*” “*Use of Proceeds*” and “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption.*” These conditions will include, among other things, that the funds required to pay the consideration for the Takeda Acquisition will be applied promptly (and in any event within two business days). In the event that, in the reasonable judgment of the Senior Secured Notes Issuer, the Takeda Acquisition will not be consummated on or prior to the Longstop Date, or upon certain other events described herein, the Senior Secured Notes Issuer will redeem the entire aggregate principal amount of the Takeda Temporary Notes then outstanding at a price equal to 100% of the aggregate issue price of such Takeda Temporary Notes, plus accrued but unpaid interest and additional amounts, if any, from the later of the New Issue Date and the most recent interest payment date to (but not including) the Special Mandatory Redemption Date (as defined herein). See “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption.*”

**Use of Proceeds . . . . .** The proceeds from the Offering of the Takeda Temporary Notes will be used (i) to finance part of the proposed Takeda Acquisition, (ii) to pay the costs, fees and expenses incurred in connection with the Takeda Transaction and (iii) for general corporate purposes. See “*—Escrow of Proceeds; Special Mandatory Redemption.*”

The proceeds from the Offering of the Walmark Tap Notes will be used to (i) finance part of the proposed Walmark Acquisition and (ii) pay the costs, fees and expenses incurred in connection with the Walmark Transaction. However, if the Walmark Acquisition is not consummated, the proceeds of the Walmark Tap Notes will be used for the general corporate purposes of the Group.

See “*The Transactions*” and “*Use of Proceeds.*”

<b>Additional Amounts</b> . . . . .	Any payments made by the Senior Secured Notes Issuer or any Senior Secured Notes Guarantor with respect to the Additional Notes will be made without withholding or deduction for taxes unless required by law. If such withholding or deduction is required by law in any “relevant taxing jurisdiction,” the Senior Secured Notes Issuer or the relevant Senior Secured Notes Guarantor, as applicable, will pay the additional amounts necessary so that the net amounts received by the holders of the Additional Notes after the withholding or deduction is not less than the amount that they would have received in the absence of the withholding or deduction, subject to certain exceptions. See “ <i>Description of the Senior Secured Notes—Withholding Taxes.</i> ”
<b>Tax Fungibility</b> . . . . .	For U.S. federal income tax purposes, the Senior Secured Notes Issuer intends to treat the Tap Notes offered hereby as fungible with the Existing Senior Secured Notes. See “ <i>Certain Tax Consequences—Certain U.S. Federal Income Tax Consequences—Fungibility for U.S. Federal Income Tax Purposes.</i> ”
<b>Optional Redemption</b> . . . . .	<p>The Senior Secured Notes Issuer may redeem all or part of the Senior Secured Notes on or after September 30, 2020, at the relevant redemption price set forth under “<i>Description of the Senior Secured Notes—Optional Redemption.</i>”</p> <p>Prior to September 30, 2020, the Senior Secured Notes Issuer may redeem all or part of the Senior Secured Notes by paying a “make whole” premium as described under “<i>Description of the Senior Secured Notes—Optional Redemption.</i>”</p> <p>Prior to September 30, 2020, the Senior Secured Notes Issuer may in each calendar year redeem up to 10% of the aggregate principal amount of the Senior Secured Notes (including any additional Senior Secured Notes) at a redemption price equal to 103% of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date.</p> <p>Additionally, at any time prior to September 30, 2020, the Senior Secured Notes Issuer may on one or more occasions redeem upon notice up to 40% of the original aggregate principal amount of the Senior Secured Notes using the net proceeds from certain equity offerings, at a redemption price equal to 103.50% of the principal amount of the Senior Secured Notes, plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the date of redemption; provided that at least 50% of the original aggregate principal amount of the Senior Secured Notes remains outstanding after the redemption, with the net proceeds of one or more specified equity offerings. See “<i>Description of the Senior Secured Notes—Optional Redemption.</i>”</p>
<b>Optional Redemption for Tax Reasons</b> . . . . .	In the event of certain developments affecting taxation that become effective after the New Issue Date, the Senior Secured Notes Issuer may redeem the Senior Secured Notes in whole but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and Additional Amounts, if any, to, but excluding, the date of redemption. See “ <i>Description of the Senior Secured Notes—Redemption for Taxation Reasons.</i> ”

<b>Change of Control</b> . . . . .	<p>If (i) the Senior Secured Notes Issuer experiences a change of control event or (ii) the Senior Secured Notes Issuer ceases to own 100% of the Senior Secured Notes Issuer or any successor entity (excluding directors' qualifying shares), the holders of the Senior Secured Notes will have the right to require the Senior Secured Notes Issuer to offer to repurchase the Senior Secured Notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the date of purchase. However, a change of control pursuant to (i) above will not be deemed to have occurred if a specified consolidated net leverage ratio is not exceeded in connection with such event or upon signing of a definitive agreement in respect thereof. See <i>"Description of the Senior Secured Notes—Change of Control."</i></p>
<b>Tender Offers</b> . . . . .	<p>In connection with certain tender offers for the Senior Secured Notes, if holders of not less than 90% in aggregate principal amount of the outstanding Senior Secured Notes validly tender and do not withdraw such Senior Secured Notes in such tender offer and the Senior Secured Notes Issuer, or any third party making such a tender offer in lieu of the Senior Secured Notes Issuer, purchases, all of the Senior Secured Notes validly tendered and not withdrawn by such holders, the Senior Secured Notes Issuer or such third party will have the right to redeem the Senior Secured Notes that remain outstanding in whole, but not in part, following such purchase at a price equal to the price offered to each other holder of Senior Secured Notes. See <i>"Description of the Senior Secured Notes—Optional Redemption."</i></p>
<b>Certain Covenants</b> . . . . .	<p>Each of the Takeda Temporary Indenture and the Senior Secured Notes Indenture limits, among other things, the ability of the Senior Secured Notes Issuer and the Restricted Subsidiaries to:</p> <ul style="list-style-type: none"> <li>• incur or guarantee additional indebtedness and issue certain preferred stock;</li> <li>• create or incur certain liens;</li> <li>• make certain restricted payments;</li> <li>• make certain investments;</li> <li>• impose restrictions on the ability of their subsidiaries to pay dividends or make other payments to the Senior Secured Notes Issuer;</li> <li>• engage in certain transactions with affiliates;</li> <li>• consolidate or merge with other entities; and</li> <li>• impair the security interests for the benefit of the holders of the Senior Secured Notes.</li> </ul> <p>Each of these covenants is subject to significant exceptions and qualifications. See <i>"Description of the Senior Secured Notes—Certain Covenants."</i></p> <p>Certain of the covenants will be suspended if and for as long as the Senior Secured Notes achieve investment-grade ratings. See <i>"Description of the Senior Secured Notes—Certain Covenants—Suspension of Covenants on Achievement of Investment Grade Status."</i></p>

Each of the covenants in the Senior Secured Notes Indenture is subject to significant exceptions and qualifications. See “*Description of the Senior Secured Notes—Certain Covenants.*”

## **U.S. Federal Income Tax**

<b>Considerations</b> .....	For a discussion of certain U.S. federal income tax considerations of an investment in the Additional Notes, see “ <i>Certain Tax Consequences—Certain U.S. Federal Income Tax Considerations.</i> ” You should consult your own tax advisor to determine the U.S. federal, state, local and other tax consequences of an investment in the Additional Notes.
<b>Transfer Restrictions</b> .....	The Additional Notes and the Senior Secured Notes Guarantees thereof have not been registered under the U.S. Securities Act or the securities laws of any other jurisdiction and will not be so registered. The Additional Notes are subject to restrictions on transferability and resale. See “ <i>Transfer Restrictions.</i> ” Holders of the Additional Notes will not have the benefit of any exchange or registration rights.
<b>Risk Factors</b> .....	Investing in the Additional Notes involves substantial risks. You should consider carefully all the information in this offering memorandum and, in particular, you should evaluate the specific risk factors set forth in the “ <i>Risk Factors</i> ” section before making a decision whether to invest in the Additional Notes.
<b>No Prior Market</b> .....	The Additional Notes will be new securities for which there is currently no market. Although the Initial Purchasers of the Additional Notes have advised us that they intend to make a market in the Additional Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, there can be no assurance that an active trading market will develop for the Tap Notes.
<b>Listing</b> .....	The Existing Senior Secured Notes have been listed and admitted to dealing on the Official List of the Exchange. Application will be made to the Authority for the listing of the Additional Notes on the Official List of the Exchange. There can be no assurance that the Additional Notes will be listed on the Official List of the Exchange, that such permission to deal in the Additional Notes will be granted or that such listing will be maintained. The Exchange is not a regulated market pursuant to the provisions of Directive 2014/65/EU on markets in financial instruments, as amended.
<b>Governing Law</b> .....	<p>The Senior Secured Notes Indenture is, and the Takeda Temporary Indenture and the Additional Notes will be, governed by the laws of the State of New York. Under the terms of the indentures, the governing law of the indentures and the Senior Secured Notes may be amended with the consent of holders of at least a majority (50%) in principal amount of such Senior Secured Notes then outstanding.</p> <p>The Intercreditor Agreement is governed by the laws of England and Wales. Each Security Document is governed by applicable local laws.</p>
<b>Trustee</b> .....	U.S. Bank Trustees Limited.
<b>Security Agent</b> .....	U.S. Bank Trustees Limited.
<b>Paying Agent</b> .....	Elavon Financial Services DAC, UK Branch.
<b>Transfer Agent</b> .....	Elavon Financial Services DAC, UK Branch.

**Registrar** . . . . . Elavon Financial Services DAC.  
**Escrow Agent** . . . . . JPMorgan Chase Bank, N.A., London Branch.  
**Listing Agent** . . . . . Carey Olsen Corporate Finance Limited.

## SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

*The following tables present our summary financial information and have been derived from, and should be read in conjunction with, our Financial Statements that have been prepared in accordance with IFRS and are included elsewhere herein and the sections entitled “Presentation of Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Selected Consolidated Financial Information,” “Use of Proceeds” and “Capitalization.”*

*The financial information of the Senior Notes Issuer for the twelve months ended September 30, 2019, is unaudited and has been calculated by taking the interim financial information for the nine months ended September 30, 2019, and adding it to the difference between the results of operations for the year ended December 31, 2018, and the nine months ended September 30, 2018 (each as derived from the Topco Financial Statements). The financial information for the twelve months ended September 30, 2019, has not been audited or reviewed by our auditors, is not required by, or presented in accordance with, IFRS or any other generally accepted accounting principles and has been prepared for illustrative purposes only. This information is not necessarily representative of our results of operations for such a period or any future period or any financial position at any past or future date.*

*This offering memorandum includes certain financial information as of and for the twelve months ended September 30, 2019, presented at the level of the Senior Notes Issuer, on an adjusted basis to give pro forma effect to the Transactions and the application of the proceeds therefrom, including financial information as adjusted to reflect the effect of the Transactions on the Senior Notes Issuer’s indebtedness as if the Transactions had occurred on September 30, 2019, and on the Senior Notes Issuer’s interest expense as if the Transactions had occurred on October 1, 2018. The pro forma financial information as of and for the twelve months ended September 30, 2019, has been prepared for illustrative purposes only and does not represent what the Senior Notes Issuer’s indebtedness or interest expense would have been had the Transactions occurred on September 30, 2019 or October 1, 2018, respectively; nor does it purport to project the Senior Notes Issuer’s financial results, indebtedness or interest expense at any future date. The pro forma financial information as of and for the twelve months ended September 30, 2019, has not been prepared in accordance with IFRS. Neither the assumptions underlying the pro forma adjustments nor the resulting pro forma financial information as of and for the twelve months ended September 30, 2019, have been audited or reviewed in accordance with any generally accepted auditing standards.*

*Results of operations for prior years or periods are not necessarily indicative of the results to be expected for the full year or any future period. Prospective investors should bear in mind that the performance indicators and ratios that we report herein, such as EBITDA (before leases), EBITDA, Management Adjusted EBITDA, Management Normalized EBITDA, Pro Forma Adjusted EBITDA (each as defined in this offering memorandum) and leverage and interest coverage ratios, are not financial measures defined in accordance with IFRS, U.S. GAAP or the HGB and, as such, may be calculated by other companies using different methodologies and having different results. Therefore, these performance indicators and ratios are not directly comparable to similar figures and ratios reported by other companies.*



## Summary Consolidated Income Statement Information

(in € million)	STADA			Senior Notes Issuer			
	Year ended December 31,			Year ended December 31, 2018	Nine months ended September 30,		Twelve months ended September 30, 2019
	2016	2017	2018		2018	2019	
	(audited, except otherwise stated)			(audited, except otherwise stated)	(unaudited)		
Sales	2,139.2	2,313.9	2,330.8	2,330.8	1,708.3	1,903.0	2,525.5
Cost of sales	(1,105.3)	(1,178.0)	(1,139.5)	(1,408.2)	(1,053.0)	(1,025.9)	(1,381.1)
<b>Gross Profit</b>	<b>1,033.9</b>	<b>1,135.9</b>	<b>1,191.3</b>	<b>922.6</b>	<b>655.2</b>	<b>877.1</b>	<b>1,144.5</b>
Selling expenses	(488.3)	(514.5)	(538.6)	(538.6)	(383.1)	(426.2)	(581.6)
General and administrative expenses	(182.7)	(199.7)	(183.7)	(200.7)	(136.1)	(164.7)	(229.3)
Research and development expenses	(65.1)	(67.5)	(72.3)	(72.3)	(53.7)	(51.5)	(70.1)
Other income	19.3	41.3	84.4	69.8	32.1	23.6	61.3
Other expenses	(138.9)	(203.3)	(103.1)	(141.2)	(70.6)	(107.8)	(178.4)
<b>Operating profit</b>	<b>178.1</b>	<b>192.3</b>	<b>378.1</b>	<b>39.6</b>	<b>43.7</b>	<b>150.5</b>	<b>146.3</b>
<i>thereof:</i> Depreciation of lease assets <sup>(1)(2)</sup>	0.8	1.0	0.9	0.9	0.7	17.1	17.4
<i>thereof:</i> Rent expense <sup>(1)(2)</sup>	32.4	32.2	34.6	34.6	25.3	8.4	17.7
Result from investments measured at equity	0.7	2.3	3.7	3.7	3.7	(0.0)	0.1
Investment income	0.0	(0.0)	0.0	0.0	—	—	0.0
Financial income	2.7	3.6	5.6	17.8	16.6	7.3	8.5
Financial expenses	(54.1)	(50.5)	(44.6)	(279.7)	(122.1)	(157.2)	(314.8)
<i>thereof:</i> Interest expense on leases <sup>(1)(2)</sup>	0.3	0.4	0.5	0.5	0.3	2.5	2.6
<b>Financial result</b>	<b>(50.7)</b>	<b>(44.5)</b>	<b>(35.2)</b>	<b>(258.1)</b>	<b>(101.8)</b>	<b>(149.9)</b>	<b>(306.2)</b>
<b>Earnings before taxes</b>	<b>127.4</b>	<b>147.7</b>	<b>342.9</b>	<b>(218.6)</b>	<b>(58.0)</b>	<b>0.6</b>	<b>(159.9)</b>
Income taxes	(31.9)	(53.0)	(32.3)	(15.8)	(20.2)	9.0	13.4
<b>Earnings after taxes</b>	<b>95.5</b>	<b>94.8</b>	<b>310.5</b>	<b>(234.3)</b>	<b>(78.2)</b>	<b>9.7</b>	<b>(146.5)</b>
<i>thereof:</i> distributable to controlling shareholders (net income)	85.9	85.3	306.9	(224.3)	(68.0)	1.4	(154.9)
<i>thereof:</i> distributable to non-controlling shareholders	9.6	9.4	3.6	(10.1)	(10.2)	8.3	8.4

(1) Represents unaudited financial data for the periods presented.

(2) Our income statement information is presented in accordance with IAS 17 for all periods ended on or prior to December 31, 2018, whereas it is presented in accordance with IFRS 16 for all periods thereafter. To facilitate a comparison of our results of operations across periods and irrespective of the applicable lease accounting standard, we have provided an unaudited breakdown showing (i) our depreciation of finance lease assets, interest expense on finance leases and rent expense (including operating lease expense and other rent expense not affected by lease accounting) and, respectively, (ii) our depreciation of right-of-use assets, interest expense on lease liabilities and rent expense (including rent expense exempt from or not affected by lease accounting).

## Summary Consolidated Balance Sheet Information

(in € million)	STADA			Senior Notes Issuer	
	As of December 31,			As of	As of
	2016	2017	2018	December 31, 2018	September 30, 2019
	(audited, except otherwise stated)			(audited, except otherwise stated)	(unaudited)
Intangible assets . . . . .	1,582.4	1,474.3	1,707.2	4,890.3	4,640.6
Property, plant and equipment . . . . .	322.7	332.7	351.5	444.8	518.0
Financial assets . . . . .	2.2	2.0	2.3	2.3	6.1
Investments measured at equity . . . . .	13.9	41.5	24.6	24.6	1.9
Other financial assets . . . . .	4.5	1.1	0.8	1.2	1.5
Other assets . . . . .	3.1	1.3	1.2	1.2	1.2
Deferred tax assets . . . . .	20.8	27.6	26.3	34.8	39.1
<b>Non-current assets . . . . .</b>	<b>1,949.5</b>	<b>1,880.6</b>	<b>2,113.8</b>	<b>5,399.0</b>	<b>5,208.5</b>
Inventories . . . . .	484.9	499.0	515.3	515.3	600.6
Trade accounts receivable . . . . .	489.1	520.4	516.0	516.0	541.3
Return assets . . . . .	—	—	0.6	0.6	0.3
Income tax receivables . . . . .	12.8	14.3	8.5	18.1	27.7
Other financial assets . . . . .	39.9	9.8	12.8	12.8	14.0
Other assets . . . . .	28.7	35.3	49.2	51.7	52.6
Cash and cash equivalents . . . . .	352.6	243.2	343.8	360.1	205.8
Non-current assets and disposal groups held for sale . . . . .	83.0	1.8	0.1	0.1	244.6
<b>Current assets . . . . .</b>	<b>1,490.9</b>	<b>1,324.0</b>	<b>1,446.3</b>	<b>1,474.6</b>	<b>1,686.9</b>
<b>Total assets . . . . .</b>	<b>3,440.4</b>	<b>3,204.5</b>	<b>3,560.1</b>	<b>6,873.6</b>	<b>6,895.4</b>
Share capital . . . . .	162.1	162.1	162.1	0.0	0.0
Capital reserve . . . . .	514.2	514.2	514.2	1,044.8	1,044.8
Retained earnings including net income . . . . .	673.3	717.4	858.6	(417.1)	(423.4)
Other reserves . . . . .	(379.1)	(430.0)	(475.9)	(50.8)	19.8
Treasury shares . . . . .	(1.4)	(1.4)	(1.4)	0.0	0.0
<b>Equity attributable to shareholders of the parent . . . . .</b>	<b>969.0</b>	<b>962.2</b>	<b>1,057.6</b>	<b>577.0</b>	<b>641.3</b>
Shares relating to non-controlling shareholders . . . . .	78.1	44.2	120.4	120.4	112.9
<b>Equity . . . . .</b>	<b>1,047.1</b>	<b>1,006.4</b>	<b>1,178.0</b>	<b>697.4</b>	<b>754.2</b>
Other non-current provisions . . . . .	36.0	35.3	33.5	33.5	42.8
Financial liabilities . . . . .	1,336.4	0.8	978.4	3,956.1	4,234.3
Other financial liabilities <sup>(1)</sup> . . . . .	3.9	4.0	4.2	7.8	40.0
thereof: Finance leases (IAS 17) <sup>(2)</sup> . . . . .	1.8	2.1	2.6	2.6	—
thereof: Lease liabilities (IFRS 16) <sup>(2)</sup> . . . . .	—	—	—	—	32.3
Other liabilities . . . . .	1.0	1.0	2.5	2.5	2.4
Deferred tax liabilities . . . . .	116.4	116.5	83.9	971.5	914.2
<b>Non-current borrowed capital . . . . .</b>	<b>1,493.7</b>	<b>157.6</b>	<b>1,102.4</b>	<b>4,971.4</b>	<b>5,233.7</b>
Other provisions . . . . .	20.3	23.5	22.5	22.5	17.8
Financial liabilities . . . . .	134.3	1,257.1	444.9	467.9	63.9
Trade accounts payable . . . . .	336.8	340.6	315.1	320.6	347.4
Contract liabilities . . . . .	—	—	1.5	1.5	1.0
Income tax liabilities . . . . .	60.6	69.7	79.7	88.4	92.7
Other financial liabilities <sup>(1)</sup> . . . . .	214.0	226.1	288.7	173.5	200.7
thereof: Finance leases (IAS 17) . . . . .	1.5	1.3	1.4	1.4	—
thereof: Lease liabilities (IFRS 16) <sup>(2)</sup> . . . . .	—	—	—	—	19.0
Other liabilities . . . . .	118.9	123.5	127.2	130.4	141.5
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups . . . . .	14.6	—	—	—	42.4
<b>Current borrowed capital . . . . .</b>	<b>899.6</b>	<b>2,040.5</b>	<b>1,279.7</b>	<b>1,204.8</b>	<b>907.4</b>
<b>Total equity and liabilities . . . . .</b>	<b>3,440.4</b>	<b>3,204.5</b>	<b>3,560.1</b>	<b>6,873.6</b>	<b>6,895.4</b>

(1) Our balance sheet information is presented in accordance with IAS 17 as of all dates falling on or prior to December 31, 2018, whereas it is presented in accordance with IFRS 16 as of all dates thereafter. For all periods presented, we have recognized lease liabilities, if any, under current and non-current other financial liabilities. To facilitate a comparison of our other financial liabilities across periods and irrespective of the applicable lease accounting standard, we have provided an unaudited breakdown showing (i) our lease liabilities under finance leases in accordance with IAS 17 and (ii) our lease liabilities in accordance with IFRS 16, respectively.

(2) Represents unaudited financial data for the periods presented.

## Summary Consolidated Cash Flow Statement Information

(in € million)	STADA			Senior Notes Issuer			
	Year ended December 31,			Year ended December 31, 2018	Nine months ended September 30,		Twelve months ended September 30, 2019
	2016 <sup>(1)</sup>	2017	2018		2018	2019	
		(audited)		(audited)		(unaudited)	
Cash flow from operating activities . . . . .	333.5	262.9	320.3	284.4	196.4	224.1	312.1
Cash flow from investing activities . . . . .	(171.8)	(122.6)	(300.3)	(300.3)	(252.8)	(188.6)	(236.0)
Cash flow from financing activities . . . . .	54.3	(227.8)	79.7	(98.5)	35.7	(186.8)	(321.0)
<b>Changes in cash and cash equivalents . . . . .</b>	<b>216.1</b>	<b>(87.6)</b>	<b>99.7</b>	<b>(114.4)</b>	<b>(20.8)</b>	<b>(151.3)</b>	<b>(244.9)</b>
Balance at beginning of the period . . . . .	143.2	352.6	243.2	474.0	474.0	360.1	453.1
Changes in cash and cash equivalents due to the scope of consolidation . . . . .	(3.4)	(12.9)	(0.0)	(0.0)	0.2	(4.3)	(4.5)
Changes in cash and cash equivalents due to exchange rates . . . . .	(3.3)	(8.9)	0.9	0.6	(0.3)	1.3	2.1
<b>Balance at end of the period . . . . .</b>	<b>352.6</b>	<b>243.2</b>	<b>343.8</b>	<b>360.1</b>	<b>453.1</b>	<b>205.8</b>	<b>205.8</b>

- (1) Due to a change in the presentation of cash outflows for finance leases, the information on investing and financing cash flows for the year ended December 31, 2016, has been derived from the comparative information in the STADA Financial Statements as of and for the year ended December 31, 2017, as opposed to the STADA Financial Statements as of and for the year ended December 31, 2016.

## Other Consolidated Financial and Pro Forma Data

(in € million, other than percentages and ratios)	STADA			Senior Notes Issuer			
	Year ended December 31,			Year ended December 31, 2018	Nine months ended September 30,		Twelve months ended September 30, 2019
	2016	2017	2018		2018	2019	
	(unaudited, unless otherwise stated)			(unaudited, unless otherwise stated)	(unaudited)		
<b>Other Financial Information:</b>							
Constant-currency sales <sup>(2)</sup> . . . . .	2,132.1	2,279.4	2,349.2	2,349.2	1,719.4	1,905.4	2,535.1
EBITDA (before leases) <sup>(3)</sup> . . . . .	393.9	396.0	565.2	468.7	323.1	455.6	601.2
EBITDA <sup>(3)</sup> . . . . .	361.5 <sup>(1)</sup>	363.8 <sup>(1)</sup>	530.6 <sup>(1)</sup>	434.2 <sup>(1)</sup>	297.8	447.1	583.5
EBITDA margin <sup>(4)</sup> . . . . .	17%	16%	23%	19%	17%	23%	23%
Management Adjusted EBITDA <sup>(3)</sup> . . . . .	398.0 <sup>(1)</sup>	433.9 <sup>(1)</sup>	503.5 <sup>(1)</sup>	502.2 <sup>(1)</sup>	388.4	467.8	581.6
Adjusted Capital Expenditures <sup>(5)</sup> . . . . .	96.5	86.0	73.2	73.2	54.3	90.6	109.5
Adjusted Free Cash Flow <sup>(6)</sup> . . . . .	301.5	347.9	430.3	429.0	334.1	377.2	472.1
Adjusted Cash Conversion <sup>(7)</sup> . . . . .	76%	80%	85%	85%	86%	81%	81%
<b>Pro Forma Data:</b>							
Pro Forma Adjusted EBITDA <sup>(3)</sup> . . . . .							821.3
Pro forma net senior secured indebtedness <sup>(8)</sup> . . . . .							4,043.1
Pro forma net indebtedness <sup>(9)</sup> . . . . .							4,633.1
Pro forma interest expense <sup>(10)</sup> . . . . .							190.4
Ratio of pro forma net senior secured indebtedness to Pro Forma Adjusted EBITDA . . . . .							4.92x
Ratio of pro forma net indebtedness to Pro Forma Adjusted EBITDA . . . . .							5.64x
Ratio of Pro Forma Adjusted EBITDA to pro forma interest expense . . . . .							4.31x

- (1) Represents audited financial data for the periods presented.

- (2) We present our Financial Statements in euro. As a result, we translate the financial position and results of operations attributable to our consolidated subsidiaries with a functional currency other than euro into euro, using average exchange rates as of the dates and during the periods presented. In this offering memorandum, we present our sales not only as reported under IFRS, but also on a constant-currency basis using the Non-GAAP Measure, constant-currency sales. Constant-currency sales is used to adjust for the distorting effect of fluctuations in the exchange rates we use in the translation of our non-euro-denominated sales into euro by instead assuming that exchange rates were constant in all periods. We believe that this measure facilitates an understanding of the underlying economic performance of the Group's operations. For a reconciliation between the foreign exchange rates used for reporting purposes in our Financial Statements and the foreign exchange rates used for purposes of the calculation of constant-currency sales, see "Presentation of Financial Information—Non-GAAP Financial Measures—Constant-currency Sales."

- (3) We define EBITDA (before leases) as earnings before interest (including interest expense on lease liabilities), taxes, depreciation (including depreciation of lease assets in connection with leases), amortization, impairment losses and rent expense. We define EBITDA as earnings before interest, taxes, depreciation, amortization and impairment losses. We define Management Adjusted EBITDA as EBITDA, adjusted for certain special items as set forth below. We define Pro Forma

Adjusted EBITDA as Management Adjusted EBITDA, adjusted for certain one-off and pro forma adjustments and expected cost savings identified by the Sponsors as set forth below.

By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historical cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we present Non-GAAP Measures such as EBITDA (before leases), EBITDA, Management Adjusted EBITDA, Management Normalized EBITDA and Pro Forma Adjusted EBITDA because we believe that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. In addition, we present EBITDA (before leases) to facilitate a comparison of our results of operations before the impact of different lease accounting standards and other rent expense. We believe this presentation is useful to investors, as our results of operations are presented in accordance with IAS 17 for all periods ending on or prior to December 31, 2018, whereas all periods thereafter are presented in accordance with IFRS 16. By adding back depreciation of finance lease assets and right-of-use assets in connection with leases, interest expense on lease liabilities and rent expense (which comprises, among others, the rent expense in accordance with the applicable lease accounting standard), we eliminate all expenses resulting from lease accounting and other rent expense and enable investors to compare our performance across periods and irrespective of the applicable lease accounting standard and other rent expense.

Our Non-GAAP Measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to performance measures derived in accordance with IFRS or any other generally accepted accounting principles. Our Non-GAAP Measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Because of these limitations, our Non-GAAP Measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our Financial Statements and using these Non-GAAP Measures only supplementally to evaluate our performance. See *“Presentation of Financial Information—Non-GAAP Financial Measures.”*

Set forth below is a reconciliation of each of EBITDA (before leases), EBITDA, Management Adjusted EBITDA, Management Normalized EBITDA and Pro Forma Adjusted EBITDA to earnings after taxes which we believe is their closest comparable IFRS measure.

(in € million)	STADA			Senior Notes Issuer			
	Year ended December 31,			Year ended December 31, 2018	Nine months ended September 30,		Twelve months ended September 30, 2019
	2016	2017	2018		2018	2019	
	(unaudited, unless otherwise stated)			(unaudited, unless otherwise stated)	(unaudited)		
<b>Earnings after taxes</b> . . . . .	<b>95.5<sup>(A)</sup></b>	<b>94.8<sup>(A)</sup></b>	<b>310.5<sup>(A)</sup></b>	<b>(234.3)<sup>(A)</sup></b>	<b>(78.2)</b>	<b>9.7</b>	<b>(146.4)</b>
Income taxes . . . . .	31.9 <sup>(A)</sup>	53.0 <sup>(A)</sup>	32.3 <sup>(A)</sup>	15.8 <sup>(A)</sup>	20.2	(9.0)	(13.4)
Financial income and expenses (excluding leasing) <sup>(B)</sup> . . . . .	51.1	46.4	38.5	261.4	105.1	147.4	303.7
Depreciation and amortization net of write-ups of non-current assets (excluding leasing) <sup>(B)</sup> . . . . .	181.9	168.2	147.9	389.9	249.8	279.5	419.7
Lease adjustment <sup>(B)</sup> . . . . .	33.5	33.6	35.9	35.9	26.3	28.0	37.7
thereof: Financial income and expenses	0.3	0.4	0.5	0.5	0.3	2.5	2.6
thereof: Depreciation and amortization	0.8	1.0	0.9	0.9	0.7	17.1	17.4
thereof: Rent expense . . . . .	32.4	32.2	34.6	34.6	25.3	8.4	17.7
<b>EBITDA (before leases)</b> . . . . .	<b>393.9</b>	<b>396.0</b>	<b>565.2</b>	<b>468.7</b>	<b>323.1</b>	<b>455.6</b>	<b>601.2</b>
Rent expense <sup>(B)</sup> . . . . .	(32.4)	(32.2)	(34.6)	(34.6)	(25.3)	(8.4)	(17.7)
<b>EBITDA</b> . . . . .	<b>361.5<sup>(A)</sup></b>	<b>363.8<sup>(A)</sup></b>	<b>530.6<sup>(A)</sup></b>	<b>434.2<sup>(A)</sup></b>	<b>297.8</b>	<b>447.1</b>	<b>583.5</b>
Effects from purchase price allocations and product acquisitions <sup>(C)</sup> . . . . .	(2.9) <sup>(A)</sup>	(4.2) <sup>(A)</sup>	(1.4) <sup>(A)</sup>	88.7	87.8	2.7	3.6
Exchange rate effects CIS/Eastern Europe <sup>(D)</sup> . . . . .	9.1 <sup>(A)</sup>	—	—	—	—	—	—
Portfolio adjustment and restructuring expenses <sup>(E)</sup> . . . . .	28.2 <sup>(A)</sup>	—	—	—	—	—	—
Expenses in connection with the takeover process <sup>(F)</sup> . . . . .	—	45.0 <sup>(A)</sup>	—	5.1	1.4	3.7	7.4
Others <sup>(G)</sup> . . . . .	2.0 <sup>(A)</sup>	29.2 <sup>(A)</sup>	(25.7) <sup>(A)</sup>	(25.8)	1.4	14.3	(12.9)
<b>Management Adjusted EBITDA</b> . . . . .	<b>398.0<sup>(A)</sup></b>	<b>433.9<sup>(A)</sup></b>	<b>503.5<sup>(A)</sup></b>	<b>502.2<sup>(A)</sup></b>	<b>388.4</b>	<b>467.8</b>	<b>581.6</b>
Normalization adjustments <sup>(H)</sup> . . . . .	—	23.7	67.8	64.9	43.8	53.6	74.7
<b>Management Normalized EBITDA<sup>(H)</sup></b> . . . . .	<b>398.0</b>	<b>457.5</b>	<b>571.3</b>	<b>567.1</b>	<b>432.2</b>	<b>521.4</b>	<b>656.3</b>
One-off adjustments <sup>(H)</sup> . . . . .	—	—	—	—	—	—	(1.4)
Run-rate adjustments <sup>(H)</sup> . . . . .	—	—	—	—	—	—	35.3
Expected cost savings <sup>(H)</sup> . . . . .	—	—	—	—	—	—	61.4
Takeda Acquisition <sup>(H)</sup> . . . . .	—	—	—	—	—	—	63.2
Walmark Acquisition <sup>(H)</sup> . . . . .	—	—	—	—	—	—	6.5
<b>Pro Forma Adjusted EBITDA<sup>(H)</sup></b> . . . . .	—	—	—	—	—	—	<b>821.3</b>

(A) Represents audited financial data for the periods presented.

(B) Our income statement information is presented in accordance with IAS 17 for all periods ended on or prior to December 31, 2018, whereas it is presented in accordance with IFRS 16 for all periods thereafter. As a result, the comparability of our EBITDA between these periods is limited because our adoption of IFRS 16 on January 1, 2019, resulted in an increase of interest expense on leases, an increase of depreciation of lease assets and a decrease in rent expense. To facilitate a comparison of our results of operations across periods and irrespective of the applicable lease accounting standard, we present EBITDA (before leases). By adding back to earnings after taxes: (i) income taxes; (ii) financial income and expenses (excluding leasing); (iii) depreciation and amortization net of write-ups of non-current assets (excluding leasing); and (iv) a lease adjustment comprised of (I) depreciation of finance lease assets, interest expense on finance leases and rent expense (including operating lease expense and other rent expense not affected by lease accounting), and, respectively (II) depreciation of right-of-use assets, interest expense on lease liabilities and rent expense (including rent expense exempt from or not affected by lease accounting), we eliminate all expenses resulting from lease accounting and other rent expense and enable investors to compare our performance across periods and irrespective of the applicable lease accounting standard and rent expense on the basis of EBITDA (before leases). EBITDA (before leases) is then adjusted to include rent expense to arrive at EBITDA.

(C) Relates to measurement effects due to purchase price allocations and significant product acquisitions, using the year ended December 31, 2013 as the baseline. With respect to the Senior Notes Issuer, the effects from purchase price allocations and product acquisitions relate to measurement effects due to the purchase price allocation for the STADA Acquisition.

(D) Relates to transactional foreign exchange losses recorded in the income statement resulting from the fluctuation of the Russian ruble and other significant currencies in the CIS/Eastern Europe market region during the periods presented. As of January 1, 2017, we have discontinued reporting this adjustment as we believe the significant fluctuations experienced in earlier periods have returned to a more normal level.



- (E) Relates to miscellaneous extraordinary expenses in respect of the year ended December 31, 2016, particularly the restructuring of our German business, the termination of certain parts of our aesthetics business, expenses related to the deconsolidation of our Egyptian subsidiary and the termination of our former Omega Distribution Agreement (as defined herein).
- (F) Relates to fees paid for financial advisory, legal and other professional fees in connection with the STADA Acquisition and the Takeover Offer.
- (G) Relates to miscellaneous extraordinary income and expenses.
- (H) Management Normalized EBITDA represents Management Adjusted EBITDA, adjusted for certain normalization adjustments. Pro Forma Adjusted EBITDA represents Management Normalized EBITDA, adjusted for (i) certain one-off, run-rate and cost savings adjustments, (ii) the estimated impact of the Takeda Acquisition (including expected synergies) and (iii) the estimated impact of the Walmark Acquisition (excluding expected synergies). These adjustments are set forth in more detail below.

In connection with the STADA Acquisition, we commissioned third-party due diligence reports to analyze STADA's financial condition and operations and the potential for achieving cost savings at STADA. We have derived certain normalization, one-off, pro forma and cost savings adjustments from one of these reports, which we updated in connection with the Transactions. Our normalization adjustments normalize certain income and expense items; our one-off adjustments adjust our results for certain events that could be considered one-off in nature; our run-rate adjustments adjust our results for the pro forma impact of certain acquisitions, disposals and product launches that we carried out after October 1, 2018; and our cost-savings adjustments give pro forma effect to certain expected cost savings.

In addition, we commissioned third-party due diligence reports to analyze the financial condition and operations of the Takeda CIS Assets and the Walmark Group and the potential for achieving cost savings and synergies following the completion of the relevant acquisition. Pro Forma Adjusted EBITDA has been adjusted to give effect to (i) the estimated run-rate impact of the Takeda Acquisition, based on unaudited carve-out financial information of the Takeda CIS Assets for the twelve months ended June 30, 2019, contained in such report, and (ii) the estimated run-rate impact of cost savings initiatives that we intend to implement following the Takeda Acquisition Completion Date. Furthermore, Pro Forma Adjusted EBITDA has been adjusted for the estimated run-rate impact of the Walmark Acquisition, based on unaudited carve-out financial information of the Walmark Group for the twelve months ended May 31, 2019, contained in such report (excluding expected synergies).

The calculation of Management Normalized EBITDA and Pro Forma Adjusted EBITDA is based on various assumptions and estimates by external consultants and management. This information is inherently subject to significant business, economic and competitive risks and uncertainties that could cause our actual results to differ materially from those assumed in the adjustments below. As a result, while we believe that these adjustments and potential cost savings are reasonable estimates, the actual results and cost savings in any given period may differ from those estimated herein. See also *"Forward-Looking Statements."*

The presentation of Management Normalized EBITDA and Pro Forma Adjusted EBITDA is for informational purposes only. Neither Management Normalized EBITDA nor Pro Forma Adjusted EBITDA represent the results we would have achieved had each of the events or items for which an adjustment is made occurred on or prior to October 1, 2018. Management Normalized EBITDA and Pro Forma Adjusted EBITDA are included in this offering memorandum because we believe that each of these metrics provides a useful measure of our results of operations after giving effect to the Transactions and the initiatives described below; however, these numbers have not been, and cannot be, audited, reviewed or verified by any independent accounting firm, and this information does not constitute a measure of financial performance under IFRS. You should not consider Management Normalized EBITDA and Pro Forma Adjusted EBITDA as alternatives to net income or any other performance measures derived in accordance with IFRS or as measures of our results of operations or liquidity. Other companies, including those in our industry, may calculate similarly titled financial measures differently from us, and so the presentation of such financial measures may not be comparable to other similarly-titled measures of other companies. See also *"Presentation of Financial Information."*

We are currently exploring a potential disposition of one of our British subsidiaries and continually evaluate acquisition opportunities; see *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations and Financial Condition—Acquisitions and Disposals."*

Adjustments to Management Adjusted EBITDA (in € million)	Senior Notes Issuer
	Twelve months ended
	September 30, 2019
	(unaudited)
Consulting expenses <sup>(a)</sup>	41.8
M&A costs <sup>(b)</sup>	8.5
Personnel costs <sup>(c)</sup>	13.1
Earn-out payment <sup>(d)</sup>	0.5
False advertising lawsuit <sup>(e)</sup>	3.2
Deconsolidation (Dutch and German vaping businesses) <sup>(f)</sup>	2.4
Marketing costs (France) <sup>(g)</sup>	0.3
Pensions <sup>(h)</sup>	0.3
ROSTA bad debt provision—50% impairment <sup>(i)</sup>	(1.4)
Other one-off income and charges <sup>(j)</sup>	5.9
<b>Total normalization adjustments</b>	<b>74.7</b>
<b>Total one-off adjustments<sup>(k)</sup></b>	<b>(1.4)</b>
Launch of Bortezomib <sup>(l)</sup>	21.2
Bioceticals royalty income <sup>(m)</sup>	5.7
Violet acquisition <sup>(n)</sup>	8.1
Acquisition of Ketodol <sup>(o)</sup>	0.3
<b>Total run-rate adjustments</b>	<b>35.3</b>
<b>Expected cost savings<sup>(p)</sup></b>	<b>61.4</b>
<b>Takeda Acquisition<sup>(q)</sup></b>	<b>63.2</b>
<b>Walmart Acquisition<sup>(r)</sup></b>	<b>6.5</b>

- (a) This adjustment represents certain consulting expenses, including (i) consulting expenses related to a realignment of our marketing and distribution strategy in the amount of €8.6 million; (ii) consulting expenses related to the Sponsors' Transformation Program in the amount of €6.1 million; (iii) consulting expenses related to outsourcing projects in the amount of €4.1 million; (iv) consulting expenses related to a new management reporting structure in the amount of €1.1 million; and (v) the Sponsors' monitoring fees in the amount of €3.6 million.
- (b) Represents certain legal, advisory and other professional fees incurred costs in connection with certain past and pending M&A transactions.
- (c) Following completion of the STADA Acquisition, we incurred certain non-recurring expenses related to (i) severance payments and headhunter costs in connection with a restructuring of our senior management; and (ii) a bonus payment of €1.0 million to our executive management.
- (d) Represents a non-recurring earn-out payment related to the acquisition of our UK vaping business in 2017.
- (e) This adjustment reverses a provision we recognized after we discontinued the distribution of certain OTC products that became the subject of a pending false advertising lawsuit.
- (f) Represents the sum of (i) the costs we incurred in connection with the deconsolidation of our vaping businesses in the Netherlands and Germany and (ii) the negative EBITDA contribution of these businesses.
- (g) Represents additional marketing expenses we incurred to secure our market share in France following the replacement of our local management team in 2017.
- (h) Represents changes to the valuation of the UK defined benefit pension scheme following an actuarial review in 2018.
- (i) Following the insolvency of the Russian reseller Rosta, we wrote off our uncollectable receivables in the second half of 2017 but added 50% of the associated impairment charges back to EBITDA. In 2019, we recovered €2.8 million from Rosta's credit insurer and hence management subtracted 50% of such income from our Pro Forma Adjusted EBITDA.
- (j) Mainly relates to (i) costs incurred in connection with the review of our financial statements as of and for the nine months ended September 30, 2019, in connection with the Offering, (ii) the Sponsors' monitoring fees, (iii) an additional purchase price allocation adjustment in connection with our acquisition of a controlling interest in Bioceticals and (iv) costs for M&A projects.
- (k) Represents an adjustment in respect of the remaining 50% of the reimbursement for uncollectable Rosta receivables.
- (l) Represents a run-rate adjustment giving effect to the estimated EBITDA contribution of our newly-launched anti-cancer medication, Bortezomib.
- (m) Represents a run-rate adjustment giving effect to the annual royalty income our subsidiary, Bioceticals, expects to receive from Pfizer. Pfizer distributes one of the products developed by Bioceticals in the United States. While sales were ramping up in 2019, we believe they have now reached a sustainable level. As a result, we have included a run-rate adjustment of €5.7 million to annualize the expected average royalty income.
- (n) Represents a run-rate adjustment giving effect to our acquisition of a GSK product portfolio in July 2019 as if such acquisition had occurred on October 1, 2018.

- (o) Represents a run-rate adjustment giving effect to our acquisition of Ketodol rights in the Italian market as if such acquisition had occurred on October 1, 2018.
- (p) We are continuing the rollout of our Transformation Program and believe we are currently on track to realize additional incremental cost savings of approximately €16.9 million in the year ending December 31, 2019. Through the next phase of our Transformation Program, we expect, based on certain assumptions and our current estimates, to realize additional incremental cost savings of approximately €44.5 million in the coming years. See *“Forward-Looking Statements.”*
- (q) Represents the estimated EBITDA impact of the Takeda Acquisition, giving effect to expected synergies of €7.6 million.
- (r) Represents the estimated EBITDA impact of the Walmark Acquisition, excluding expected synergies.
- (4) EBITDA margin represents, in any period, EBITDA for such period, divided by sales for such period.
- (5) We define capital expenditures as total capital expenditure on intangible assets, property, plant and equipment and financial assets as well as business combinations according to IFRS 3. We define Adjusted Capital Expenditures as capital expenditures, excluding payments for significant investments and acquisitions. Set forth below is a reconciliation of Adjusted Capital Expenditures to capital expenditures, in each case as defined by us, for each of the periods set forth below. Also see *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”*

(in € million)	STADA			Senior Notes Issuer			
	Year ended December 31,			Year ended December 31, 2018	Nine months ended September 30,		Twelve months ended September 30, 2019
	2016	2017	2018		2018	2019	
	(audited)			(audited)	(unaudited)		
Capital expenditures . . . . .	182.8 <sup>(b)</sup>	128.3	309.4	309.4	259.6	200.0	249.9
Significant investments and acquisitions <sup>(a)</sup>	(86.3)	(42.3)	(236.2)	(236.2)	(205.3)	(109.4)	(140.3)
<b>Adjusted Capital Expenditures . . . . .</b>	<b>96.5</b>	<b>86.0</b>	<b>73.2</b>	<b>73.2</b>	<b>54.3</b>	<b>90.6</b>	<b>109.5</b>

- (a) Significant investments and acquisitions relate to investments in intangible assets and business combinations according to IFRS 3.
- (b) The information on capital expenditures for the year ended December 31, 2016, has been derived from the comparative information in the STADA Financial Statements as of and for the year ended December 31, 2017, as opposed to the STADA Financial Statements as of and for the year ended December 31, 2016.
- (6) Adjusted Free Cash Flow represents, for any period, Management Adjusted EBITDA, less Adjusted Capital Expenditures.
- (7) Adjusted Cash Conversion represents, for any period, Adjusted Free Cash Flow divided by Management Adjusted EBITDA.
- (8) Pro forma net senior secured indebtedness represents the pro forma financial debt of the Senior Secured Notes Issuer that is secured by a lien on the Senior Secured Notes Collateral, including the Tap Notes, the Existing Senior Secured Notes, the Senior Secured Credit Facilities (including the new Facility E) and the STADA Existing Debt (but excluding the Senior Secured Notes Issuer’s guarantee of the Senior Notes which is secured with a second-ranking lien on a portion of the Senior Secured Notes Collateral), less pro forma cash and cash equivalents, after giving effect to the Transactions (including the Offering of the Tap Notes) as if they had occurred on September 30, 2019. See *“Capitalization.”*
- (9) Pro forma net indebtedness represents the pro forma financial debt of the Senior Notes Issuer, including the Tap Notes, the Existing Senior Notes, the Existing Senior Secured Notes, the Senior Secured Credit Facilities (including the new Facility E) and the STADA Existing Debt, less pro forma cash and cash equivalents, after giving effect to the Transactions (including the Offering of the Tap Notes) as if they had occurred on September 30, 2019. See *“Capitalization.”*
- (10) Pro forma interest expense represents the estimated interest expense of the Group on a pro forma basis for the twelve months ended September 30, 2019, after giving effect to the Transactions (including the Offering of the Tap Notes) as if they had occurred on October 1, 2018, subject to the assumptions set forth under *“Use of Proceeds.”* This reflects the interest expense in connection with debt incurred under the Existing Senior Notes, the Existing Senior Secured Notes, the Tap Notes offered hereby, the drawings and commitment fees under the Senior Secured Credit Facilities Agreement that will be outstanding when giving pro forma effect to the Transactions and the STADA Existing Debt. Pro forma interest expense is presented for illustrative purposes only and does not purport to represent what our interest expense would have actually been had the Takeda Transactions occurred on October 1, 2018; nor does it purport to project our interest expense for any future period or our financial position at any future date.

## Summary Division Income Statement Information<sup>(1)</sup>

The following tables set forth our constant-currency sales, sales, EBITDA, EBITDA margin, Management Adjusted EBITDA and Management Adjusted EBITDA margin:

(in € million, unless otherwise stated)	STADA			Senior Notes Issuer		
	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2016	2017	2018	2018	2019	2019
	(unaudited, unless otherwise stated)					
<b>Constant-currency sales<sup>(2)(3)</sup></b>	<b>2,132</b>	<b>2,279</b>	<b>2,349</b>	<b>1,719</b>	<b>1,905</b>	<b>2,535</b>
thereof: Generics	1,591	1,697	1,666	1,221	1,429	1,874
thereof: Branded Products	1,072	1,125	1,202	885	931	1,248
thereof: Consolidation/other	(531)	(542)	(519)	(387)	(455)	(587)
<b>Sales</b>	<b>2,139.2<sup>(4)</sup></b>	<b>2,313.9<sup>(4)</sup></b>	<b>2,330.8<sup>(4)</sup></b>	<b>1,708.3</b>	<b>1,903.0</b>	<b>2,525.5</b>
thereof: Generics	1,280.7 <sup>(4)</sup>	1,361.7 <sup>(4)</sup>	1,382.8 <sup>(4)</sup>	1,009.9	1,119.9	1,492.9
thereof: Branded Products	858.5 <sup>(4)</sup>	952.2 <sup>(4)</sup>	948.0 <sup>(4)</sup>	698.4	783.1	1,032.7
<b>EBITDA</b>	<b>361.5<sup>(4)</sup></b>	<b>363.8<sup>(4)</sup></b>	<b>530.6<sup>(4)</sup></b>	<b>297.8</b>	<b>447.1</b>	<b>583.5</b>
thereof: Generics	255.8 <sup>(4)</sup>	292.5 <sup>(4)</sup>	359.2 <sup>(4)</sup>	218.0	328.7	407.1
thereof: Branded Products	186.2 <sup>(4)</sup>	204.9 <sup>(4)</sup>	242.5 <sup>(4)</sup>	155.4	217.9	281.8
<b>EBITDA margin</b>	<b>17%</b>	<b>16%</b>	<b>23%</b>	<b>17%</b>	<b>23%</b>	<b>23%</b>
thereof: Generics	20%	21%	26%	22%	29%	27%
thereof: Branded Products	22%	22%	26%	22%	28%	27%
<b>Management Adjusted EBITDA</b>	<b>398.0<sup>(4)</sup></b>	<b>433.9<sup>(4)</sup></b>	<b>503.5<sup>(4)</sup></b>	<b>388.4</b>	<b>467.8</b>	<b>581.6</b>
thereof: Generics	264.9 <sup>(4)</sup>	302.8 <sup>(4)</sup>	359.6 <sup>(4)</sup>	280.8	332.3	413.4
thereof: Branded Products	200.7 <sup>(4)</sup>	207.4 <sup>(4)</sup>	240.6 <sup>(4)</sup>	178.6	218.0	281.8
<b>Management Adjusted EBITDA margin</b>	<b>19%</b>	<b>19%</b>	<b>22%</b>	<b>23%</b>	<b>25%</b>	<b>23%</b>
thereof: Generics	21%	22%	26%	28%	30%	28%
thereof: Branded Products	23%	22%	25%	26%	28%	27%

(1) Division data excludes income and expenses at the holding company level.

(2) We present our Financial Statements in euro. As a result, we translate the financial position and results of operations attributable to our consolidated subsidiaries with a functional currency other than euro into euro, using average exchange rates as of the dates and during the periods presented. In this offering memorandum, we present our sales not only as reported under IFRS, but also on a constant-currency basis using the Non-GAAP Measure, constant-currency sales. Constant-currency sales is used to adjust for the distorting effect of fluctuations in the exchange rates we use in the translation of our non-euro-denominated sales into euro by instead assuming that exchange rates were constant in all periods. We believe that this measure facilitates an understanding of the underlying economic performance of the Group's operations. For a reconciliation between the foreign exchange rates used for reporting purposes in our Financial Statements and the foreign exchange rates used for purposes of the calculation of constant-currency sales, see "Presentation of Financial Information—Non-GAAP Financial Measures—Constant-currency Sales."

(3) In the year ended December 31, 2016, the arithmetic totals of our division sales differ from our consolidated sales due to certain consolidation adjustments which could not be allocated to any division.

(4) Represents audited financial data for the years ended December 31, 2016, 2017 and 2018.

## RISK FACTORS

*An investment in the Additional Notes involves a high degree of risk. Prospective investors in the Additional Notes should carefully consider the risks described below and the other information contained in this offering memorandum before making a decision to invest in the Additional Notes. Any of the following risks, individually or together, could adversely affect our business, financial position, results of operations and prospects, and accordingly the value of the Additional Notes. This section describes the risks and uncertainties that we believe are material, but these risks and uncertainties may not be the only ones that we face. Additional risks and uncertainties, including those of which we are currently unaware or those which we deem immaterial, may also result in decreased sales, assets and cash inflows, increased expenses, liabilities or cash outflows or other events that could result in a decline in the value of the Additional Notes, or which could have a material adverse effect on our business, financial position, results of operations and prospects. The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on our business, financial position, results of operations and prospects or on the trading price of the Additional Notes.*

### **Risks Relating to Our Business and Industry**

The risks that might have a material impact on the Group's business operations include the following:

#### ***We operate in a highly competitive industry, which may adversely affect our sales, margins and operations.***

Our industry is highly competitive and is driven by a variety of factors, including price, reliability of quality, local market expertise, distribution channels, portfolio breadth, marketing, packaging and brand loyalty. Our two divisions, Generics and Branded Products, face intense competition from our competitors' products.

Many of our competitors are well-known pharmaceutical companies with substantial financial and other resources. Companies with more resources may have a greater ability to conduct the development work necessary to obtain marketing authorizations. Our products could, for example, be rendered obsolete or uneconomical through the development of new products or technological advances in manufacturing or production by our competitors. Our competitors' products may also be, or be perceived as being, more effective or more efficiently marketed and sold than our products. Our competitors may also be able to sustain a deliberate substantial reduction in the price of their products or services for longer periods. This is likely to result in significant price pressure in an increasingly commoditized market, which, in turn, may reduce our sales and market share. In addition, competition in certain of our markets is particularly intense due to the use of public tenders. Tender systems for generic pharmaceutical products have been implemented (by both public and private entities) in a number of significant markets in which we operate, such as Germany, in an effort to lower prices. Under such tender systems, governments or private entities do not directly set the prices of pharmaceutical products (including generic pharmaceutical products); rather, manufacturers submit bids that establish prices for generic pharmaceutical products and governments or private entities select a winning bidder. These measures affect competition, marketing practices and the reimbursement of drugs. See “—Changes in large volumes of demand arising from tender systems could lead to delivery bottlenecks or an unintentional increase in inventories.”

The pharmaceutical industry is also characterized by continuous product development and technological change. The entry of new players and products in any of our markets may make it difficult for us to increase our market share, retain existing competitive positions or access new markets at all. If we fail to maintain our competitive position, through either product development or effective marketing, or if any of our larger competitors engage in pricing competition with us, there could be a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

#### ***We are subject to extensive governmental regulation, and changes in these regulations, or the failure by us or any of our third-party suppliers to comply with these regulations, could harm our business.***

We are subject to extensive, complex, costly and evolving regulations. These regulations govern, among other things, the development, authorization, manufacturing and procurement of contract manufacturing, wholesale distribution and supply, pharmacovigilance and promotion of our products. See “Regulation.” While the regulations in the European Union are to a certain extent streamlined, the regulatory environment outside the European Union is fragmented and varies by country. Globally, we market our products in approximately 120 countries, mainly across Europe, the Commonwealth of Independent States



(“CIS”) region, the MENA region, Asia, Australia and South America, and each of these countries may regulate these areas differently.

In our Generics division, we sell unbranded generic products mostly comprising prescription products. In most countries, the pricing of prescription products is regulated either directly (for example, through statutory price reductions) or indirectly (for example, through reference prices and reimbursement rates payable by the health insurance system, mandatory discounts, terms and/or requirements concerning discounts, the creation of framework conditions to stimulate market forces and competition). Pricing also may be influenced by supranational regulations in the European Union. Any changes in these regulations or procedural rules, such as those governing public procurement and tender processes, could reduce the profitability of individual products and, in exceptional cases, could render the market introduction of a new product unprofitable.

The regulatory bodies in the jurisdictions where we operate rigorously monitor and enforce compliance with the relevant regulations by pharmaceutical companies, and our operations are subject to periodic inspections by the relevant regulatory authorities in our markets. As a manufacturer of pharmaceutical products, we are, for example, subject to principles of good manufacturing practice (“GMP”) and good distribution practice (“GDP”), and compliance with these principles is assessed by the competent regulators via site audits. See *“Regulation—European Union—EU Pharmaceutical Regulatory Regime—Manufacturing and Contract Manufacturing”* and *“Business—Procurement, Production and Quality Management—Highest Quality and Safety Standards.”* Following these inspections, the relevant regulator may issue notices listing the conditions that inspectors believe may violate GMP, GDP or other applicable regulations, and warning letters that could modify certain activities identified during the inspection. Failure to comply with the applicable regulations can result in fines, unanticipated compliance expenditures, the recall or seizure of products, the total or partial suspension of production or distribution, the suspension of the review of our product applications, enforcement actions, injunctions and criminal prosecution, as well as reputational harm, reduced sales and market share. Moreover, the production of biologics and biosimilar products is subject to particularly complex regulations. Failure to comply with such regulations may lead to production failures, recalls or fines. In addition, we could incur substantial remediation costs. If any of these risks materialize, our sales could be materially and adversely affected.

While we believe that we are taking adequate measures to mitigate the regulatory risk, there can be no assurance that, should regulatory scrutiny further increase, they will continue to be effective. In addition, continuing compliance with increased regulatory scrutiny is likely to increase our costs. We also have affiliations, in-licensing agreements and other arrangements with third parties that depend on regulatory approvals of their processes and products. These third parties are subject to similar regulatory compliance. If any of those third parties does not comply with our regulatory requirements, we could be adversely affected if their non-compliance results in an interruption in our supply of raw materials or ingredients or, in the case of any of our licensors, it hinders our ability to produce our in-licensed products.

Any failure by us or any of our third-party suppliers or licensors to comply with governmental regulations, or any regulatory action taken against us, could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We are exposed to changes in demand for our products due to economic, political and regulatory factors that are beyond our control.***

Our results of operations have been, and continue to be, affected by conditions in the global economy. For example, international conflicts, such as the conflict between Russia and Ukraine, and the political situation in certain countries in which we operate, such as the United Kingdom and Spain, may adversely affect the macroeconomic environment. See *“—We operate manufacturing facilities and sales entities and have significant sales in Russia, which has experienced conflicts with certain of its neighboring countries and has been and may in the future be the subject of national and international sanctions”* and *“—The result of the United Kingdom’s withdrawal from the European Union may have a negative effect on our business.”* These events have influenced, and may continue to influence, the development of our sales in the relevant markets.

While sales in our Generics division, which mostly comprises nondiscretionary prescription products, are less vulnerable to adverse economic conditions, our results of operations in the Branded Products division, which mostly comprises self-pay OTC products, is more sensitive. An economic downturn and lower household incomes can significantly depress demand in the self-payment market, i.e., the market for

pharmaceutical products for which consumers are not reimbursed as part of their personal national health insurance plan.

We believe that we are particularly exposed to a deterioration in the Russian economy. Russia accounted for €311.9 million, or 13%, of our sales in the year ended December 31, 2018. Russia does not have a comprehensive state healthcare system, and we estimate that the Russian self-payment market comprised up to approximately 67% (by value) of the Russian pharmaceuticals market for the year ended December 31, 2018. As a result, Russia's recent economic deterioration had, and any future downturn may have, a particularly negative impact on our sales. In addition, the United Kingdom accounted for €198.5 million, or 9%, of our sales in the year ended December 31, 2018, 90% of which was in Branded Products. As a result, we believe we are also exposed to any deterioration in the UK economy, and there can be no assurance that Brexit (as defined below) or other factors may not result in a decline in the economic condition of the United Kingdom. Moreover, one of our largest markets in the Generics division, Spain, which accounted for €106.8 million, or 8%, of our generic sales in the year ended December 31, 2018, is still experiencing a period of political uncertainty. Since the beginning of 2019, the situation in Catalonia calmed down in connection with the proclamation of independence by the Catalan regional parliament. The court rulings of the Spanish Supreme Court against prominent Catalan politicians in October 2019 have again escalated the tensions in the conflict. It remains to be seen to what extent the Spanish government will succeed in reducing the uncertainty in the region resulting from the pro-independence movement and thus the uncertainty about the possible outcome of political and social tensions in Catalonia. The escalation of the conflict related to the independence of Catalonia from Spain led to boycott campaigns against products and suppliers that are headquartered in Catalonia, including STADA.

Our Generics division is also exposed to fluctuations in the economy to the extent economic, political and regulatory factors induce cost-containment reform measures in any country, which could affect reimbursement rates and our sales of prescription drugs. For example, the sustained economic downturn in Spain has resulted in a number of cost-containment measures in recent years. See “—Existing and future healthcare cost-containment reform measures by government health authorities or government-sponsored healthcare systems could adversely affect our business” below.

Any of these factors, or others that we cannot anticipate, may adversely affect our business, results of operations and financial condition and could adversely affect our ability to perform our obligations under the Additional Notes.

***Existing and future healthcare cost-containment reform measures by government health authorities or government-sponsored healthcare systems could adversely affect our business.***

In various countries where we operate, government health authorities provide healthcare at a low direct cost to consumers and regulate pharmaceutical prices or patient reimbursement levels to control costs for the government-sponsored healthcare system. The continuing increase in healthcare expenditure has therefore been the subject of considerable government attention in many of the countries in which we operate, particularly as public resources have been stretched by the global economic crisis. Furthermore, in recent years, the increasing average age of the population and the associated increasing demand for pharmaceutical products has led to rising healthcare costs.

Increasing expenditure on healthcare has been the subject of considerable public attention. In recent years, many countries across the globe have discussed or implemented a measure of healthcare reform. The primary focus of these reforms was to introduce cost-containment measures and optimize governmental healthcare spending, particularly for prescription drugs, which account for a major part of our sales. Measures implemented in line with these reforms are fragmented and vary by country. The Russian government, for example, has released a list of vital and essential pharmaceuticals (“VEP”) that are subject to mandatory price caps. Overpricing can result in fines and other penalties. Certain European countries have introduced numerous austerity measures to lower healthcare spending, including mandatory discounts, clawbacks and price referencing rules. In certain cases, reimbursements for high-priced drugs were refused. The United Kingdom and Germany introduced new systems to determine the cost effectiveness of drugs, which will decide the reimbursement level for a drug. In Spain the government's pricing and reimbursement policy is focused on cost-containment measures as they attempt to reduce their financial deficit, which has repeatedly resulted in price cuts, reductions to wholesale and retail margins and cuts to the list of reimbursable drugs since 2000; we believe the pace at which these regulatory measures are enacted has accelerated in recent years. The Spanish government has also enacted

four royal decree-laws since 2010 that have directly affected the pharmaceutical industry by means of price reductions for older pharmaceutical products, mandatory rebates on drugs and medical devices, and limitations on the number of products eligible for a reimbursement under the Spanish National Health Service. Certain countries also cut their healthcare expenditure budgets or fixed them at a particular amount. Furthermore, mandatory price cuts were introduced in respect of both generic and patented drugs.

While most of our Branded Products are non-reimbursable OTC drugs, which are generally less affected by the above measures, those measures may affect our Generics division, which mostly comprises prescription products, in a number of ways. Cost control initiatives could decrease the price that we receive for any Generics product we currently distribute or will develop in the future. As a result, we may be disincentivized from developing and marketing new products or from entering new markets. Existing regulations that affect the prices of pharmaceutical and other medical products may also change before our products are approved for marketing. Our products may not be considered cost effective or adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an adequate return on our investment. The governments of the countries where we operate may, in the future, implement further regulations that impose additional pressure on the price of pharmaceutical products.

Any of the factors described above could have a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Obtaining and maintaining necessary government approvals for manufacturing and marketing our products is time-consuming, and may not in each instance prove successful.***

We must obtain a marketing authorization and other regulatory certifications, licenses and approvals prior to marketing or manufacturing new pharmaceutical products, which applies to both Generics and Branded Products. See “Regulation” and “—We are subject to extensive governmental regulation, and changes in these regulations, or the failure by us or any of our third-party suppliers to comply with these regulations, could harm our business.” Although less onerous than for originator pharmaceutical companies, the process of obtaining marketing authorizations and other regulatory certifications, licenses and approvals to manufacture and market pharmaceutical products is rigorous, time-consuming and costly. Depending on the country and therapeutic area, the issuance of an approval may take two years, or even longer. As the authorization process is time-consuming, we may be unable to realize the momentum for the launch of new products, which may result in the loss of sales and market share. To the extent that we are unable to secure timely approvals for new products, we will depend on our existing products to maintain our sales. There can be no assurance that these products will continue to remain competitive and generate sufficient sales over time.

There can be no assurance that we will obtain regulatory approval of any application we submit for the commercial sale of a product in time, including regulatory approvals required for the transfer of the product licenses that will be acquired as part of the Acquisitions, or at all. Delays in any part of the process or our inability to obtain or maintain regulatory approval in respect of our products could adversely affect our operating results by restricting or delaying the introduction of new products. If health or safety concerns arise with respect to a product, we may be forced to withdraw it from the market and could face legal action if any harm came from the use of such product. For example, in September 2019, the German Federal Institute for Drugs and Medical Devices (“BfArM”) and the European Medicines Agency (“EMA”) informed us that there has been a recall in the European Union of medicinal products containing the active pharmaceutical ingredient (“API”) ranitidine, produced by the API manufacturer Saraca Laboratories (India). The reason for the recall is indications of possible nitrosamines impurities, which are considered carcinogenic, in ranitidine produced by Saraca Laboratories (India). In the Balkan countries, we use a dossier with the ranitidine API produced by Saraca Laboratories (India). Although as of the date of this offering memorandum we have not received any instructions from the local authorities in the Balkan countries to recall our products containing this API, we understand that the Serbian authorities are currently in contact with the German authorities and therefore there is a risk that the Serbian authorities will follow the BfArM and also order a recall of products containing ranitidine. Furthermore, our products must be successfully registered in the markets in which they are commercialized. For example, in the Generics division, a significant factor in the development and approval of each product is the strict observance of commercial property rights, such as patents and supplementary protection certificates.

Moreover, if we obtain regulatory agency approval for a drug, it may be limited with respect to the indicated uses for which the drug may be marketed, which could in turn restrict our potential market for the drug. The discovery of previously unknown problems with any of our pharmaceutical products could result in restrictions on the use of a drug, including possible withdrawals of the drug from the market. Any delays in obtaining governmental approval or authorization of new or existing products may have a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***If we are unable to successfully develop, manufacture or commercialize new Generics products in a timely manner, it could adversely affect our business, results of operations, financial condition and ability to perform our obligations under the Additional Notes.***

We are focused on generics and therefore only conduct limited proprietary research on new drugs. As a result, we do not typically incur material research expenses. As a generics company, however, we incur development costs in connection with marketing authorizations and the production of our new products, as well as other activities that facilitate their commercialization. As a result, future results of operations depend, to a significant extent, on our ability to develop, manufacture and successfully commercialize new products in a timely manner. The development, manufacturing and commercialization process is time-consuming. We must develop, test and manufacture our products as well as successfully register them in each relevant jurisdiction. All our products must meet and continue to comply with regulatory and safety standards in each of the markets in which they are to be commercialized. There can be no assurance that the necessary marketing authorizations will be obtained in a timely manner or at all and delays or the inability to obtain regulatory approval could adversely affect our business. See “—*Obtaining and maintaining necessary government approvals for manufacturing and marketing our products is time-consuming, and may not in each instance prove successful.*”

Our products currently under development, if and when fully developed and tested, may not perform as expected or may face greater than expected competition. In addition, our new products may be unable to achieve their planned value. The successful development and manufacture of new products also depends on our ability to secure, on a timely basis and on commercially reasonable terms, the required raw materials. In addition, there can be no assurance that our new products will be accepted by the medical community in our target markets. See “—*Our ability to market our products successfully depends, in part, upon the acceptance of the products not only by end-users, but also by independent third parties, including public health insurers, doctors and pharmacists, depending on the jurisdiction in which we operate.*” Finally, we are dependent on partnerships and joint ventures with third parties and we face the risk that some of these third parties may fail to perform their obligations under the relevant contracts, thus reducing our ability to successfully develop, manufacture or commercialize new products in a timely manner. See “—*We are exposed to default or counterparty risks in connection with our operating business or as a result of contracting parties’ failure to meet their contractual obligations.*”

Should any of the above risks materialize, there could be a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We are subject to the risk of litigation and other claims.***

From time to time, we are involved in various litigation matters, including product liability claims, warranty obligations claims, alleged violations of trade confidentiality and others. See “*Business—Legal Proceedings,*” “—*Our reputation among end-users and other market participants may suffer due to product liability or contamination issues, whether actual or perceived*” and “—*Third parties may claim that we infringe their proprietary rights, and as a result we may be prevented from manufacturing and selling our products.*” When we determine that a significant risk of a future claim against us exists, we record provisions in an amount equal to our estimated liability. However, there can be no assurance that our provisions will be sufficient to cover our actual litigation costs. In addition, third-party litigation, including litigation related to competition law, anti-trust law, tax law, patent law and the implementation of individual regulatory requirements in the provision of healthcare at a national or supranational level, could have an indirect, materially adverse impact on us and the market environment in which we operate.

As of the date of this offering memorandum, we are involved in 20 pending general litigation cases. Although we currently only consider one of these disputes related to our operations in Serbia as material, there can be no assurance that we will be successful in defending ourselves in pending or future litigation



claims or similar matters under various laws or that product-specific provisions will be sufficient to cover litigation costs. Moreover, it may be difficult for us to obtain and enforce claims related to existing litigation under the laws of certain countries in which we operate at affordable costs and without any materially adverse effects on our business in such country. For example, one of our subsidiaries in Russia is currently subject to a litigation in connection with its purchase of a product portfolio, with the claimant seeking damages in the amount of approximately €26 million.

Any of these events could result in considerable costs, including damages and legal fees, and a temporary or permanent ban on the marketing of certain products, which could have a material adverse effect on our business, financial condition and results of operations.

***Third parties may claim that we infringe their proprietary rights, and as a result we may be prevented from manufacturing and selling our products.***

There has been substantial litigation in the pharmaceutical industry with respect to the manufacture, use and sale of generic pharmaceutical products. These lawsuits relate to the validity and infringement of patents or the proprietary rights of third parties. Originator and generic pharmaceutical companies are increasingly patenting not only the relevant molecules or manufacturing processes relating to a final dosage product, but also the formulations and production processes of active pharmaceutical ingredients.

While we believe that our products do not infringe in any material respect upon the commercial property rights of other parties, we believe that patent infringement claims are typical of our industry. While we generally take great care in ensuring that the new products we launch do not violate any intellectual property rights of third parties and seek to refrain from selling products prior to the expiration of their patent protection, there can be no assurance that an intellectual property infringement claim could not be brought against us and that we would not be found to infringe on the commercial property rights of others. This is also due to the fact that, in certain countries, such as Italy, patent applications are not publicly disclosed until the patent is issued and, therefore, we may not be aware of currently filed patents. In addition, even if our searches in the registers indicate that patents or other intellectual property rights have expired, there can be no assurance that originators or other parties that previously held such rights will not subsequently seek to restore their patents. If any application to restore intellectual property rights were granted after we had started marketing a product, we could be found to violate such rights and become liable for damages to their owners. We may also be subject to other legal action preventing or impeding our future marketing of the subject product.

As of the date of this offering memorandum, we are involved in 11 pending patent infringement lawsuits. We believe that the claims alleged in these pending patent infringement lawsuits have no merit and that we will not be required to make any material compensation payment.

We may also be subject to significant damages or an injunction preventing us from manufacturing, selling or using some of our products in the event of a successful claim of patent or other intellectual property infringement. Furthermore, a significant third-party claim could result in management's attention being distracted from current operations.

The outcome of intellectual property-related proceedings could adversely affect, hinder, delay or prevent the manufacture, use, marketing or sale of our products or processes. We may also be required to pay substantial damages or change our product offerings or expend significant resources to develop non-infringing products or processes. Any of the above could affect our ability to compete or have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

We rely, in part, on license, collaboration and other agreements to develop our product portfolio. For example, we occasionally enter into research and development partnerships with universities. The underlying collaboration agreements may provide that we are granted the exclusive license to commercialize the final product. Our present and future licenses, collaborations and other intellectual property-related agreements may impose various development, commercialization, funding, milestone, royalty, diligence, sublicensing, insurance, patent prosecution and enforcement or other obligations on us. If we breach any of these obligations, or use the intellectual property licensed to us in an unauthorized manner, we may be required to pay damages and our licensors may have the right to terminate the license. If our license or other intellectual property-related agreements are terminated, we may be required to cease developing and commercializing drug candidates that are covered by the licensed intellectual property.



In addition, our licensing, collaboration and other agreements under which we license intellectual property or technology from third parties are complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology, or increase what we believe to be our financial or other obligations under the relevant agreement. Moreover, if disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on commercially acceptable terms, we may be unable to successfully develop and commercialize the affected drug candidates. For example, such disputes may relate to: (i) the scope of rights granted under the agreement and other interpretation related issues; (ii) the extent to which our technology and processes infringe on intellectual property of the licensor that is not subject to the agreement; (iii) the sublicensing of patent and other rights under our collaborative development relationships; (iv) our diligence obligations under the agreement and which activities satisfy those diligence obligations; (v) the inventorship and ownership of inventions and know-how resulting from the joint creation or use of intellectual property by our licensors and us and our collaborators; (vi) the priority of invention of patented technology; and (vii) in the case of joint developments, the ownership of intellectual property rights.

To help protect any proprietary know-how we develop and any inventions for which patents may be unobtainable or difficult to obtain, we may have to rely on trade secret protection and confidentiality agreements. There can be no assurance that all our employees, consultants, advisors and contractors who have access to our trade secrets and confidential information will agree to enter into agreements that prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries and inventions important to our business. Even where such persons entered into such agreements, these agreements may not provide adequate protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. If any of our trade secrets, know-how or other proprietary information is disclosed, the value of our trade secrets, know-how and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

If we are unable to successfully obtain rights to required third-party intellectual property or maintain the existing intellectual property rights we have, we may have to abandon the development of the relevant program or drug candidate, which could have a material adverse effect on the Group's net assets, financial condition and results of operations.

***Industrial action or adverse labor relations could disrupt our operations and have an adverse effect on our operating results.***

Our operations depend on employees who are parties to collective bargaining arrangements, works council agreements and/or benefits from local applicable law, defined benefit plans, regulations or customs regarding employee rights and benefits. If we are unable to maintain satisfactory employee relations or negotiate acceptable labor agreements in the future, results could include work stoppages, strikes or other industrial action or labor difficulties (including higher labor costs) at any or all of our global facilities.

While we believe that we have good relations with unions and our employees generally, there can be no assurance that our relations will not deteriorate and that we will not experience labor disputes in the future. Any of these adverse labor situations could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Our reputation among end-users and other market participants may suffer due to product liability or contamination issues, whether actual or perceived.***

Although generic companies, such as us, are engaged in the reproduction of pharmaceutical products and their active pharmaceutical ingredients that are vetted by regulations and often have been in the market for ten or more years, there is a risk that our Group may be liable to, or incur costs related to, liability claims if any of such companies' products cause injury or are found to be unsuitable during their development, manufacture, sale or use. These risk exists even with respect to products that have received, or may receive in the future, regulatory approval for commercial use. Moreover, our products could contain contaminated substances that we have not identified during our manufacturing process, and adverse reactions resulting from human consumption of these ingredients could occur. We could also be subject to product liability claims as a result of defective raw materials we purchase from third parties.

Product liability lawsuits could be costly to defend, and could result in reduced sales, substantial monetary awards to clinical trial participants or customers, harm to our brand and reputation, the inability to commercialize products that we develop and diversion of management's time, attention and resources. Considerable sums in damages have been awarded in certain countries against pharmaceutical companies due to physical harm allegedly caused by the use of certain products. Product liability claims may force us to withdraw some of our products from the market, thus creating the potential for further claims. Regardless of merit or eventual outcome, liability claims would likely result in negative publicity, decreased demand for any products that we may develop, injury to our reputation and the suspension or withdrawal of clinical trials, and require us to incur significant legal fees. We currently have insurance coverage for product liability claims. See "*Business—Insurance.*" However, such insurance may not be sufficient to cover all or even a material part of a significant product liability claim. Furthermore, at any time, insurance coverage may not be available on commercially reasonable terms or at all.

Our failure to successfully defend a product liability lawsuit could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Our ability to market our products successfully depends, in part, upon the acceptance of the products not only by end-users, but also by independent third parties, including public health insurers, doctors and pharmacists, depending on the jurisdiction in which we operate.***

Our ability to market our products successfully depends, in part, on the acceptance of products by independent third parties, including public health insurers, doctors, pharmacists, wholesalers, distributors, hospitals, group purchasing organizations, government representatives and other retailers, as well as end-users. In our Branded Products division, we rely, to a significant extent, on the strength of our brands and reputation and our acceptance by third-party agents and distributors. Examples of our strongest brands include APO-go, Covonia, Ladival, Aqualor, Grippostad, Snup and Vitaprost. Unanticipated side effects or unfavorable publicity concerning any of our products or brands, or the brands of our in-licensed products, could have an adverse effect on our ability to achieve acceptance by prescribing physicians, managed care providers, pharmacies and other retailers, customers and patients.

In addition to the strength of our brand and reputation, acceptance of any of our products among the medical community depends upon a variety of factors, many of which are beyond our control. With respect to Generics and prescription items in our Branded Products division these factors include the following:

- acceptance by payors, physicians, pharmacists and end-customers of each product as an effective treatment;
- whether a physician is receptive to our product and how quickly the physician adopts it as an accepted treatment;
- the product's price;
- the product's perceived advantages and disadvantages relative to competing products or treatments;
- the prevalence and severity of side effects; and
- adequate reimbursement by third parties, such as insurance companies.

If our products have received a marketing authorization from the regulatory authorities but do not achieve an adequate level of acceptance by independent third parties, we may be unable to generate sufficient or any sales from these products to make them profitable. If our products fail to maintain significant market acceptance, it could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***If our suppliers or we encounter problems manufacturing products or cease to manufacture products, our business could suffer.***

We strive to deliver high quality pharmaceutical products to our customers. The manufacture of our products is highly exacting and complex due, in part, to strict regulatory requirements governing their manufacture. We rely on complex machinery and information technology systems to support our manufacturing processes, as well as internal and external communications with respect to supplies, quality control and distribution. Problems may arise during manufacturing for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials

and environmental factors. If problems are severe, we may be forced to temporarily suspend all or part of our production until the problems are rectified. Any of this is likely to result in increased costs, lost sales, damage to customer relations, failure to perform existing contracts, time spent investigating the cause, remedial costs and, depending on the cause, similar losses with respect to other batches or products. In addition, where problems are not discovered before the product is released to the market, we may be forced to recall products from the market. For example, complying with a directive by the competent European authorities, we recalled all affected batches containing the Valsartan active ingredient that were supplied by our Chinese supplier in July 2018. We also proceeded with a second recall in September 2018, due to the contamination of a few batches at the production facilities of Hemofarm AD. In certain cases, we may face product liability claims and incur respective costs. See “—*Our reputation among end-users and other market participants may suffer due to product liability or contamination issues, whether actual or perceived.*”

The facilities used to manufacture our products are subject to periodic inspections by regulatory authorities to assess compliance with the relevant principles of GMP. See “—*We are subject to extensive governmental regulation, and changes in these regulations, or the failure by us or any of our third-party suppliers to comply with these regulations, could harm our business.*” While we manufacture most of our products, others are manufactured by our contract manufacturing partners. Although we are ultimately responsible for ensuring that our products are manufactured in accordance with the principles of GMP and believe that we diligently monitor our suppliers’ compliance within the applicable requirements, we do not control the day-to-day activities of, and we are dependent on, the contract manufacturing partners for their compliance with GMP requirements. If we or any of our suppliers were to violate the applicable principles of GMP, we or such supplier could be fined, and the competent regulator could impose a complete shutdown of such supplier’s noncompliant manufacturing plant. As a result, we could become subject to a supply shortage with respect to the products we source from the sanctioned supplier. If our inventories of these products turn out to be insufficient, this could adversely affect our sales. For example, in June 2018, our Serbian subsidiary Hemofarm AD received notice of an impurity detected in one of the active ingredients (Valsartan) used in our production. This active ingredient was supplied by one of our Chinese suppliers who has now been sanctioned, and therefore we are facing a shortage in the supply of Valsartan. As a result, we may be in breach of our own delivery contracts and may be liable for damages to our customers. In particular, our German discount agreements provide for contractual penalties in the event we fail to perform our obligations in full or at the time contemplated by the agreement. Although we may have recourse against our suppliers, our recovery may be subject to contractual or equitable limitations as well as the solvency of our suppliers and be insufficient to offset the damages payable to our customers. If our manufacturing partners or we cannot successfully manufacture materials that conform to our specifications and the strict requirements of the relevant regulatory authorities, our manufacturing contractors and we will not be able to secure or maintain regulatory approval for our respective manufacturing facilities. If a regulatory authority does not approve a facility for the manufacture of our products or if it withdraws any such approval in the future, we may need to find alternative manufacturing facilities. Although we carry out compliance checks, the occurrence or suspected occurrence of production not in line with our specifications or regulatory requirements can lead to lost inventories, and in some cases product recalls and enforcement action, with consequential damage to our reputation and the risk of product liability. The investigation and remediation of any identified problems can cause manufacturing delays, substantial expense, lost sales and the delay of new product launches.

Any of the risks described above may have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Our business could be adversely affected if we incur significant integration costs with respect to any of our bolt-on acquisitions or if we fail to successfully integrate such acquisitions.***

In the past, we have grown through a combination of organic development and acquisitions, and we intend to continue this combination in the future. Examples of our acquisitions in 2018 include the acquisition of the rights to the anti-dandruff shampoo Nizoral in Europe and the MENA region; the purchase of trademark rights to Hedrin in Belgium, Spain and Portugal; the product rights for APO-go in Germany and Scandinavia; the acquisition of the majority stake in BIOCEUTICALS, a German manufacturer of the active ingredient and finished product erythropoietin, being marketed to both third-party customers and STADA sales companies; the repurchase of all European trademark rights to Ladival; and the acquisition of Ketodol. In addition, in 2019, we acquired from GlaxoSmithKline, through our British subsidiary Thornton & Ross, five skincare brands and a pediatric cough remedy in Europe as well as selected markets

in APAC and Latin America. We believe that none of these acquisitions materially affected the comparability of our results of operations. Acquisitions are part of our strategy, and we intend to selectively explore strategic acquisitions in the global generics and OTC markets, with a focus on targets that allow us to leverage our existing platform and realize meaningful synergies.

Growth through acquisitions entails certain risks, including the risk of a failure to realize the expected benefits of the acquisitions and incurrence of unexpected risks and obligations. While we conduct due diligence in preparation for each acquisition, it is possible that legal, tax and operational risks of the respective target, some of which may be unknown or undisclosed to us at the time of the acquisition, may materialize, have more severe consequences than expected or increase the costs for the integration of a target. In addition, acquisitions are also subject to the risk of overvaluation of the target and thus to the payment of consideration greater than the target market value. Also, we may be unable to evaluate the scale of a potential acquisition, which may result in being unable to allocate proper resources to execute the acquisition and subsequent integration efficiently.

The success of our acquisition strategy is dependent, among other things, on the successful integration of the products and businesses we acquire at the expected costs, and their subsequent expansion into new markets or into the existing markets in which we operate. Such integration and expansion may put a strain on our management resources, distracting our managers from their regular tasks and require additional management resources to be deployed, especially where a large-scale acquisition is involved. Although we believe that our current managerial, administrative, technical and financial resources are capable of supporting our recent and proposed future expansion, there can be no assurance that our existing resources will be sufficient for this purpose, or that we will be able to acquire the necessary additional resources on commercially acceptable terms or at all. In addition, we may be unable to deploy sufficient resources to integrate a large-scale acquisition, which may result in us being unable to realize desired synergies. There is also a risk that key employees of companies we acquire or key employees necessary to successfully commercialize products and technologies that we acquire, may seek employment elsewhere, including with our competitors. Any failure to acquire, maintain and deploy adequate management, sales, administrative, technical and financial resources to support our expansion could undermine our acquisition strategy.

In addition, our acquisitions of target companies or product portfolios may be subject to regulatory approval. There can be no assurance that we will be able to obtain regulatory approval for our future acquisitions without unreasonable expenses and within a reasonable time period or at all.

Our failure to integrate acquired businesses and products, or to realize the intended synergies, may prevent us from obtaining the advantages that the acquisitions were intended to create, or could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Our operations may be disrupted by accidents, equipment malfunctions or other unexpected events.***

Although we believe that we have adopted and maintain adequate safety precautions, if one or more of our production facilities were to suffer a serious accident, breakdown, equipment malfunction or other unexpected event, part of our production capacity could be jeopardized and our sales and net income would be materially adversely affected until we repair or find a replacement for any such facility or machinery. Any of these events could also result in a decrease of the market shares we currently hold in the relevant markets in which we operate or with respect to the products we manufacture. While we believe that our production facilities maintain sufficient insurance to cover any such property and other asset damages, depending on the risk and type of asset or property insured, any losses related to a serious accident, equipment malfunction or other unexpected event could exceed the amount of this coverage, and subsidiaries whose business solely consists of the management of intellectual property rights and the receipt of royalties do not normally carry business interruption insurance at all. In addition, the refurbishment or reconstruction of any of our production facilities or the construction of new facilities could be subject to regulatory approval by the competent health authorities of the jurisdictions in which they are located as well as the health authorities of some or all of the jurisdictions to which products from such facilities are exported, which could result in significant delays in the resumption of product manufacturing. If any of the above were to materialize, it could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.



***Accidental contamination, noncompliance with environmental, health and safety laws or environmental, health and safety litigation or liability, could adversely impact our business and operating results.***

Our product development and manufacturing processes involve the use of chemicals and include hazardous or toxic materials. These programs and processes expose us to risks of accidental contamination, events of noncompliance with environmental, health and safety laws and regulatory enforcement, personal injury, property damage, and claims and litigation resulting from such events. If an accident occurs, or if contamination is discovered, we could be liable for cleanup obligations, damages or fines, which could have an adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes. We are currently not aware of any material contamination incidents or material noncompliance with environmental, health and safety laws.

The environmental laws of many jurisdictions in which we operate may impose potential obligations to clean up contaminated sites. These obligations may relate to sites that we acquire, own or operate, which we formerly owned or operated, or for which we may otherwise have retained liability or where waste from our operations was disposed. Were such environmental cleanup obligations to arise they could significantly reduce our operating results. In particular, any financial accruals that we may make for these obligations might be insufficient if the assumptions underlying the accruals proved to be incorrect, or if we are held responsible for additional contamination.

Stricter environmental, health and safety laws and enforcement policies could result in substantial costs and liabilities for us, and could result in handling, manufacture, use, reuse or disposal of substances or pollutants being subjected to more rigorous scrutiny by relevant regulatory authorities than is currently the case. Compliance with these laws could result in significant capital expenditures, as well as other costs, thereby potentially harming our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Failure to renew agreements with our material suppliers and wholesale customers on acceptable terms or the termination of such agreements by material suppliers or wholesalers could harm our business.***

Although we have a large number of suppliers and customers and believe that our business is not materially dependent on any single one of them, failure to renew contracts with material suppliers, such as suppliers of active pharmaceutical ingredients, equipment (including, for example, medical devices) or other items and material customers, such as hospitals, pharmacies and drugstores could negatively impact our business. In addition, some of our major supply and wholesale contracts are subject to change of control provisions that may grant the respective counterparties the right to terminate the relevant contracts as a result of a change of control, which in certain but not all contracts may shorten the termination or contract period originally contemplated under the contract. At the end of a contract's term, which may be accelerated as a result of a change of control termination, these suppliers or wholesalers have a choice to either renegotiate their contract with us, increase or decrease its scope (with our consent), seek out our competitors to provide the same or similar services or cease outsourcing the relevant activity. Whenever a contract expires or is due for renewal, suppliers and wholesalers may seek a price adjustment from us. In addition, these parties may seek a price adjustment when their business experiences significant volume changes. Furthermore, certain suppliers or wholesalers may seek to increase prices previously agreed with us due to pricing competition or other economic needs or pressures being experienced by the supplier or the wholesaler. If our contracts are terminated either by a material supplier or wholesaler (for example, as a result of a change of control event being triggered) or not extended upon their termination, if our material suppliers or wholesalers shift business away from us, or if we are unsuccessful in retaining high renewal rates and contract terms that are favorable to us, this can cause delays and may have a material adverse effect on our business and our respective operating divisions, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Changes in large volumes of demand arising from tender systems could lead to delivery bottlenecks or an unintentional increase in inventories.***

Tender systems for generic pharmaceutical products have been implemented (by both public and private entities) in a number of significant markets in which we operate, such as Germany, in an effort to achieve lower prices. Under such tender systems, governments or private entities do not directly set the prices of pharmaceutical products (including generic pharmaceutical products) but manufacturers submit bids that establish prices for generic pharmaceutical products and governments or private entities select a winning bidder. These measures affect competition, marketing practices and the reimbursement for drugs.

Initially, the tender system in Germany resulted in intense price-based competition, which pushed the pricing of generic products to a marginal-cost level. Although competition subsequently decreased and margins have partially recovered, as many smaller competitors proved unreliable in terms of their ability to fulfill large orders, there can be no assurance that new entrants will not intensify the level of competition again. Moreover, tender systems implemented by governmental institutions or public health insurance organizations could determine fluctuations in national markets, leading to changes in large volumes in the demand for pharmaceutical products. These fluctuations have a direct consequence on our business. Even if we undertake great efforts to avoid delivery bottlenecks or an unintentional increase in inventories by way of scenario calculations and specific operational positioning of the respective supply chain, these events cannot generally be ruled out due to our extensive portfolio. Any of these events could have a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Any significant increases in the cost of active ingredients or auxiliary materials used in manufacturing our products or their availability could adversely impact our profit margins and operating results.***

Affordable, high quality active ingredients or auxiliary materials are essential to our business due to the nature of the products we manufacture. Active ingredients and auxiliary materials are generally available from multiple suppliers and often sourced locally. We acquire these ingredients and auxiliary materials directly from the suppliers or enter into contracts with manufacturers producing the pharmaceutical products. Increased prices, rationing or shortages as well as fluctuations in prices can occur. In some cases, we manage these risks through mechanisms aimed at reducing our financial exposure, such as price escalation clauses (which link procurement prices to current selling prices) and specific procurement prices for specific sales volumes. However, there can be no assurance that rapid cost increases or extended supply shortages will not occur and adversely impact our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We are subject to risks associated with cross-border sales and purchases.***

We market our products in approximately 120 countries globally, with a direct presence in about 30 countries from which we carry out our local and export sales. Due to differing regulatory regimes, certain of our products may be classified as Generics in some countries and as Branded Products in others. Different classifications could also result in pricing differences, which may be material. Cross-border operations are subject to risks, including but not limited to:

- the inadequate protection of intellectual property;
- difficulties and costs associated with complying with a wide variety of complex domestic and foreign laws, regulations and treaties, some of which are subject to change;
- legal uncertainties regarding, and timing delays associated with, customs procedures, tariffs, import or export licensing requirements and other trade barriers;
- differing local product preferences and product requirements;
- increased difficulty in collecting delinquent or unpaid accounts;
- the risk of loss at sea or other delays in the delivery of products caused by transportation problems;
- differing tax regimes; and
- economic sanctions and restrictions on exports and other transfers of goods (see “—Our international sales and operations increase the risks associated with economic and trade sanctions imposed by the European Union and other jurisdictions”).

Any of these factors, individually or in the aggregate, could adversely affect our operating results.

***We are exposed to risks related to conducting operations in many different countries.***

We develop, manufacture and market a broad range of generic and branded pharmaceutical products that are available in approximately 120 countries, including the MENA region, Germany, Italy, Belgium, Russia, Spain, Serbia, France, Switzerland, Vietnam and the United States. Both our operations and those of our local sales and business partners in these countries may be subject to the following risks: changes in the rate of economic growth; unsettled political or economic conditions; expropriation or other governmental actions; social unrest, war, terrorist activities or other armed conflicts; bribery and



corruption; national and regional labor strikes; confiscatory taxation or other adverse tax policies; the deprivation of contract rights; trade regulations affecting the production, pricing and marketing of products; anti-trust risks; reduced protection of intellectual property rights; restrictions on the repatriation of income or capital; exchange controls; inflation; currency fluctuations and devaluation; the effect of global environmental, health and safety issues on economic conditions, market opportunities and operating restrictions; and changes in financial policy and the availability of credit. In addition, we or any of our local business partners may be subject to legal proceedings regarding bribery and corruption in these countries, and we are unable to ensure or monitor the lawful conduct of our business partners' operations. These factors could adversely affect our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***The pricing of cross-border transactions is often the subject of negotiation with tax authorities, and any adjustments imposed may lead to the greater or double taxation of profits.***

Most national tax authorities follow the Organization for Economic Cooperation and Development or United Nations guidelines when considering the arm's-length nature of cross-border pricing of goods and services. Adjustments made by a national tax authority may not lead to a corresponding adjustment in the other tax jurisdiction. Also, even where a corresponding tax adjustment is allowed, national tax rates may be different and may therefore increase our overall burden of taxation. Our cross-border trade is increasing and, although we benchmark our intercompany pricing regularly, the risk of an adverse adjustment will require constant monitoring, which may require a substantial amount of management resources. Potential discrepancies in the adjustments made by the tax authorities in certain jurisdictions may result in an increased tax burden on our Group.

***We operate manufacturing facilities and sales entities and have significant sales in Russia, which has experienced conflicts with certain of its neighboring countries and has been and may in the future be the subject of national and international sanctions.***

We operate two manufacturing facilities and several sales entities in Russia, which together employed 2,187 full-time equivalents as of December 31, 2018, of which 938 full-time equivalents were employed in production. Russia accounted for €311.9 million, or 13%, of our sales in 2018. Russia has experienced conflicts with certain of its neighboring countries, including Ukraine. As a result of these conflicts, Russia has become subject to national and international sanctions (including sanctions by the European Union and Ukraine, which are the most relevant to STADA's business) some of which impose restrictions on imports from Russia. These sanctions, coupled with low commodity prices, the devaluation of the Russian ruble against other major currencies and high inflation, contributed to the decrease in our financial performance in Russia since 2014, which affected both our sales and earnings. Some of these sanctions have been extended in light of the continuing turmoil in Ukraine. While certain countries exempt pharmaceutical products, such as ours, from the scope of their sanctions, no such exemption applies under the Ukrainian sanctions regime. Because we serve the Ukrainian market through supplies from our presence in Russia, these sanctions currently prevent us from making any sales into Ukraine, which adversely affects our sales and profitability. Furthermore, the Ukrainian sanctions regime prohibits both our Ukrainian operations and their financing banks from making payments into Russia. In addition, there is a risk that these countries may further expand the scope of their sanctions against Russia and that other countries will impose similar sanctions in the future. See “—We are subject to risks associated with cross-border sales and purchases.”

Moreover, our manufacturing facilities in Russia could be disrupted by the conflict with Ukraine or by other wars, political unrest, terrorist activity or economic upheaval. Any such disruption could cause losses in efficiencies, delays in shipments of our products and the loss of sales and customers, and insurance proceeds may not adequately compensate us for our losses. Furthermore, our operations in Russia may be subject to risks arising from a less stable legal and regulatory framework and less-transparent enforcement of the law. This could result in, *inter alia*, increased difficulty in enforcing contracts, collecting trade receivables, the imposition of additional regulations, an increase in taxes or restrictions of the import of products. Any of these factors could potentially damage our reputation or affect our sales and the operation of our manufacturing facilities, resulting in a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Our international sales and operations increase the risks associated with economic and trade sanctions imposed by the European Union and other jurisdictions.***

Economic sanctions and restrictions on exports and other transfers of goods have in the past been imposed on companies engaging in certain types of transactions with specified countries in which we do business, including but not limited to Russia, Lebanon, Yemen, Sudan, Myanmar, Libya and Iran. Although pharmaceutical products are generally excluded from the scope of sanctions, our exports and transfers could be impacted by such sanctions, which would limit our ability to trade with sanctioned individuals and/or sanctioned countries and create practical complications for our exports, especially in terms of our interaction with banks and receiving payments from sanctioned countries. For example, the competent authorities could require banks to withhold payments due to us from sanctioned customers or countries. The European Union and other countries have also enacted sanctions that prohibit transactions by their citizens and domiciled entities involving certain specially designated individuals and entities from sanctioned countries or participating in sanctioned activities including but not limited to terrorism and drug trafficking. In addition, the European Union, the United States and certain other countries have recently implemented measures against Russia in connection with the continuing turmoil in Ukraine. See “—We operate manufacturing facilities and sales entities and have significant sales in Russia, which has experienced conflicts with certain of its neighboring countries and has been and may in the future be the subject of national and international sanctions.”

The terms of legislation and other rules and regulations that establish sanctions regimes are often broad in scope and difficult to interpret. Neither our affiliates nor we are currently the target of any such sanctions and we have adopted policies and procedures designed to comply with applicable sanction regulations. However, these regulations and their enforcement could potentially affect our sales in the affected countries and force us to change or abandon our growth plans. In addition, failure to comply with such regulations could result in significant fines.

Although we currently do not have a direct presence in the United States and are mainly affected by sanctions implemented by the European Union, we may not exclude the possibility that sanctions enacted by the United States could affect us in the future. Any of the foregoing economic and trade sanctions could result in a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***The result of the United Kingdom’s withdrawal from the European Union may have a negative effect on our business.***

The United Kingdom’s initiation of the process to withdraw from the European Union pursuant to Article 50 of the Treaty on European Union following the national referendum in June 2016 (“Brexit”), has created significant uncertainty about the future relationship between the United Kingdom, one of our current markets, the European Union and its remaining member states, and may constitute an additional risk for the financial markets and the European economy. Brexit could, among other outcomes, significantly disrupt trade between the United Kingdom and the European Union, cause political and economic instability in other countries of the European Union, including in our main markets (such as Germany, Italy and Spain), contribute to instability in global financial and foreign exchange markets, including volatility in the value of the euro and an increase in cost pressure in the European healthcare system resulting, for example, in price reductions for our products. Brexit might also affect our ability to maintain the current level of sales in the United Kingdom, accounting for €198.5 million, or 9%, of our sales for the year ended December 31, 2018. Moreover, Brexit could affect our supply chain by causing potential delays in the supply of our products across the new European border or in the storage of stock of our products in the United Kingdom before their redistribution in the European Union. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications the Brexit will have and whether, and to what extent, our business could be affected. In addition, the Scottish regional government is actively considering a second referendum on Scottish independence from the United Kingdom which may lead to additional uncertainty and may affect our business activities in Scotland and other parts of the United Kingdom. These and similar events could have a material adverse effect on our business, financial condition and results of operations.

***Our sales and profits from generic pharmaceutical products may decline as a result of competition, both from other pharmaceutical companies and as a result of increased governmental pricing pressure.***

Our generic products face intense competition. Prices of generics typically decline, especially as additional generic pharmaceutical companies (including low-cost generic producers based in China and Vietnam) receive approvals and enter the market for a given product and competition intensifies. Consequently, our ability to sustain our sales and profitability on any given product over time is affected by the number of new companies selling such product and the timing of their approvals.

In addition, intense pressure from government healthcare authorities, particularly in highly regulated European markets, to reduce their expenditures on prescription drugs has resulted in lower pharmaceutical pricing, causing decreases in sales and profits.

Furthermore, brand pharmaceutical companies continue to defend their products vigorously. For example, brand companies often sell or license their own generic versions of their products, either directly or through other generic pharmaceutical companies (so-called “authorized generics”). No significant regulatory approvals are required for authorized generics, and brand companies do not face any other significant barriers to enter into such market. Brand pharmaceutical companies may also seek to delay introductions of generic equivalents by a variety of commercial and regulatory tactics (such as obtaining and enforcing new patents on drugs whose original patent protection is about to expire, questioning the quality and bioequivalence of generic pharmaceutical products, developing controlled-release or other slightly modified versions, which often reduce demand for the generic version of the existing product for which we are seeking approval, changing product claims and product labeling, developing and marketing OTC versions of brand products that are about to face generic competition or trying to extend the duration of their patents). These actions may increase the costs and risks of our efforts to introduce generic products and may delay or prevent such introduction altogether.

***Our products may cause undesirable side effects or have other properties that delay or prevent their regulatory approval or limit their commercial potential.***

Although we disclose all known material side effects of our Generics and Branded Products in leaflets included in each product packaging, undesirable side effects caused by any of our product candidates could cause us or regulatory authorities to interrupt, delay or halt development, could result in the denial of regulatory approval of our product, lead to potential product liability claims and could damage our brand reputation.

Any of these events could prevent us from achieving or maintaining the commercial success of our product candidates, could substantially increase commercialization costs and, in general, could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Counterfeit versions of our products could harm our patients and reputation.***

Our industry continues to be challenged by the vulnerability of distribution channels to illegal counterfeiting and the presence of counterfeit products in a growing number of markets and over the Internet. Counterfeit products are frequently unsafe or ineffective, and can potentially be life-threatening. To distributors and patients, counterfeit products may be visually indistinguishable from the authentic version. Reports of adverse reactions to counterfeit drugs or increased levels of counterfeiting could materially affect patient confidence in the authentic product, and harm the business of companies, including ours, or lead to litigation. In addition, it is possible that adverse events caused by unsafe counterfeit products could mistakenly be attributed to the authentic product. While we are not aware of any material cases in the past, if one of our products were to be the subject of counterfeits in the future, we could incur substantial reputational and financial harm.

***We commercialize some of our products under license from third-party pharmaceutical companies.***

As of December 31, 2018, we commercialized certain of our products under license from a variety of pharmaceutical companies. Our license agreements for in-licensed products typically provide that the licensor shall manufacture such products for an initial term of several years and impose payment and other material obligations on us. Although we believe that we currently comply with all our material obligations under these licenses, should we breach any such obligations, our counterparties may be entitled to

terminate the licenses. This may restrict, delay or eliminate our ability to continue commercializing these in-licensed products, which could adversely affect our business.

Our failure to in-license new products or compounds for development and distribution, replace existing products as needed or to retain our currently in-licensed products on a commercially reasonable basis, or at all, could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We may be unable to recruit and retain key personnel, including qualified scientific, technical and sales employees.***

We are highly dependent on our senior management and key employees, including our scientific, technical and sales personnel. The loss of any senior manager or key employee may significantly delay or prevent the achievement of our product development or business objectives. Due to the specialized scientific nature of our business, we are highly dependent upon our ability to continue to attract and retain qualified scientific, technical and sales personnel. The loss of the services of, or failure to recruit, key management, scientific, technical or sales personnel could be materially detrimental to our business and financial condition. We face competition for scientific and technical personnel from other companies, academic institutions, government entities and other organizations. Such competition is also enhanced by the reduction of specialized personnel in certain key functional areas, such as engineers in Germany. In addition, increasing demand for higher wages may make it difficult for us to retain the necessary personnel.

The loss of any key personnel or the inability to attract, recruit and retain highly skilled employees required for our activities could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***A breakdown in our information technology systems could result in a significant disruption of our business.***

Our operations, including research, development, manufacturing, accounting, storage and delivery, are highly dependent on our information technology systems. We make continuous investments to appropriately adapt these complex and high-performing systems to changing business processes. Such systems are vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, physical damage to vital data centers and computer virus infection. In addition, the information technology system needs regular upgrading to accommodate expansion of our business and maintain the efficiency of our operations. If we face a breakdown in our system, we could experience significant business and operational delays across our businesses. In particular, any breakdown in our information technology systems could result in disruptions in our research, development, manufacturing, accounting and billing processes. To the extent that any disruption or security breach were to result in a loss of or damage to our data, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the development of our product candidates could be delayed. Any of this could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We handle personal data including, to a minor extent, sensitive patient data in the ordinary course of our business, and any failure to maintain the confidentiality of that data could result in legal liability for us and reputational harm to our business.***

We process sensitive personal consumer data (including, in certain instances, consumer names, addresses, and to a minor extent, patient health data) as part of our business, and therefore we must comply with strict data protection and privacy laws in all the jurisdictions in which we operate. For example, we are subject to extensive European laws and regulations on privacy, information security and data protection, the main and most relevant of which relate to the collection, protection and use of personal and business data, including EU Regulation 2016/679 (the “European Data Protection Regulation”). In particular, we adapted our internal procedures to the requirements imposed by the recently implemented European Data Protection Regulation. The costs of complying with the European Data Protection Regulation are increasing, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place. Our failure to comply with privacy, data protection and information security laws, such as the European Data Protection Regulation, could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions and damage to our reputation.

Moreover, data protection laws and rules impose certain standards of protection and safeguarding on our ability to collect and use personal information relating to customers and potential customers, and could make us liable in the event of a loss of control of such data or as a result of unauthorized third-party



access. Unauthorized data disclosure could occur through cybersecurity breaches as a result of human error, external hacking, malware infection, malicious or accidental user activity, internal security breaches and physical security breaches due to unauthorized personnel gaining physical access.

We and our customers and suppliers who carry out our outsourcing, have been in the past and could be in the future subject to breaches of security by hackers. A future breach of our system or that of one of our customers or outsourcing partners may subject us to material losses or liability, including fines, claims for unauthorized use of personal and sensitive data or other claims. A misuse of such data or a cybersecurity breach could harm our reputation, increase our operating expenses in order to correct the breaches or failures, expose us to uninsured liability, increase our risk of regulatory scrutiny, subject us to lawsuits, result in the imposition of material penalties and fines under any applicable international laws or regulations, and adversely affect our business and results of operations.

We have policies and procedures in place to seek to prevent such breaches and carry out detailed root cause analysis on any breach that does occur in order to ensure that similar occurrences do not arise. However, if a single material breach or series of less material breaches was to occur, we could face liability under data protection laws, could lose the goodwill of our clients and could have our reputation damaged, all of which could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We are exposed to default or counterparty risks in connection with our operating business or as a result of contracting parties' failure to meet their contractual obligations.***

We are exposed to default and counterparty risks in connection with deliveries of our products and services to customers or as a result of financing or hedging activities if contracting parties fail to meet their obligations. In addition, there is the risk that, in a difficult economic and financial environment, national healthcare systems may delay or fail to make payments to us or our business partners, thus generating or increasing default or counterparty risks. While we strive to maintain business relations with business partners of good financial standing and adopt suitable measures to safeguard us against default risk, including guarantees, letters of credit, credit insurance or the transfer of assets, it cannot be ruled out that these measures may be insufficient. In addition, in certain developing markets, we rely on third-party distributors and other agents for the marketing and distribution of products, who may have inadequate internal compliance resources.

Any of these risks could have a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***The recent development of vaping products means the long-term health effects of vaping product use is not yet understood by medical professionals.***

Our Branded Products portfolio features non-generic pharmaceutical and non-pharmaceutical products, including vaping products, such as electronic cigarettes and vaporizers. These battery-powered products enable users to inhale nicotine vapor without smoke, tar, ash or carbon monoxide and are marketed as alternatives to traditional tobacco cigarettes and cigars. Although vaping products do not currently account for a material portion of our sales, with respect to such products, we are exposed to long-term health-related risks. Because vaping products were recently developed, the medical profession has not had a sufficient period of time in which to study the long-term health effects of vaping product use. As a result, it is unclear how safe vaping products are for their intended use, or whether they may pose risks different from those posed by traditional cigarettes and cigars. For instance, recently some U.S. states initiated a sales ban on e-cigarettes. If the medical profession were to determine conclusively that vaping product usage poses long-term health risks, vaping product usage could decline and we could be exposed to the risk of litigation, which could have a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Fluctuations in exchange rates may adversely affect our business and results of operations.***

We market our products in approximately 120 countries, have a direct presence in Europe, the MENA region, Asia, South America and Australia, and operate 18 manufacturing facilities in ten countries. Accordingly, a significant portion of our sales, expenses, assets and liabilities are in currencies other than the euro, our reporting currency, and as such our results are subject to foreign exchange translation and transaction risks. Our primary foreign exchange rate risks relate to the U.S. dollar, Russian ruble, British pound sterling and Serbian dinar.

Transactional risk arises when we and our subsidiaries execute transactions in a currency other than our and their respective functional currencies. To the extent that we incur expenses in one currency but generate sales in another, any change in the values of those currencies could cause our profits to decrease or our products to be less competitive than those of our competitors. To the extent that cash and receivables that are denominated in currencies other than the respective functional currency are greater or less than our liabilities denominated in a different currency, we will be exposed to the risk of fluctuations and movements in the foreign exchange markets. Where we are unable to match sales and receivables denominated in foreign currencies with expenses and liabilities denominated in the same currency, our results of operations are affected by currency exchange rate fluctuations.

Additionally, currency risk arises in connection with the translation of the financial condition and results of operations of our international subsidiaries with non-euro reporting currencies into our euro reporting currency. For example, a currency sensitivity analysis (translation risk) on the basis of our foreign currency items as of December 31, 2018, showed that in the financial year 2018, an appreciation or devaluation of the functional currency compared with the Russian ruble by 10% would have led to a change in our EBITDA of approximately €0.2 million. At the same time, an appreciation or devaluation of the functional currency in relation to the British pound sterling of 10% would have led to a change in our EBITDA of approximately €0.3 million. Any of these factors could have a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

We generally employ different financial derivatives to counter the risks associated with assets, liabilities and anticipated future cash flows denominated in foreign currency. However, to the extent that such financial instruments are not sufficient or not effective or due to a default risk of the relevant counterparty, fluctuations of local currencies could affect our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We may be exposed to transfer price risks in connection with our operating activities.***

We take advantage of our international network and centralize our strategic functions. In particular, we transfer and provide goods and services among the companies of the Group by adopting a corporate tax-transfer frame model for the billing of intercompany services. There is a risk that tax authorities in individual countries will assess the relevant transfer prices differently from our tax-transfer pricing model and address retroactive tax claims against one of our companies. While our tax-transfer pricing model has been agreed between the competent authorities in certain countries, in others such model is still under discussion with the authorities. For example, transfer pricing agreements are currently under discussion between the German and the Italian tax authorities. There can be no assurance that our transfer prices will be accepted by all the relevant authorities. If they fail to be accepted, this could have a material adverse effect on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Impairment of goodwill and other intangible assets may adversely affect our results of operations.***

Subject to certain conditions, we capitalize development expenses incurred in connection with the approval process necessary to obtain marketing authorizations for our products and recognize such expenses as intangible assets. In addition, as a consequence of our acquisition strategy, we regularly recognize significant amounts of goodwill on our balance sheet. As of September 30, 2019, we had intangible assets of €4,640.6 million of which €500.8 million related to goodwill.

Goodwill is not amortized over its useful life. Instead, an impairment test is performed at least once a year (the impairment-only approach) and additional reviews may be carried out if indications of impairment become apparent. In the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount and, if necessary, an impairment loss is recognized in the income statement. All intangible assets other than goodwill are initially measured at cost. Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life. If, on the reporting date, there are indications that these intangible assets are impaired, the recoverable amount of the asset is reevaluated and impairment losses are recognized according to the difference to the carrying amount. We recognize the difference between the carrying amount and the recoverable amount as impairment loss in the income statement. If the reasons for recognizing an impairment loss cease to exist for these assets, corresponding write-ups are carried out up to a maximum of the amortized cost. Intangible assets with an indefinite useful life are not amortized. In the context of annual impairment tests and in all other cases showing indications



of impairment, the recoverable amounts of these assets are compared with their carrying amounts and, if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell is determined using the relief from royalty method. We recognized intangible assets with an indefinite useful life in connection with our acquisition of the STADA Group for the brands STADA and Hemofarm. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the acquisition cost. Intangible assets that are not yet available for use are also generally evaluated in the context of annual impairment tests. Furthermore, in each reporting period, an audit is carried out to verify whether the reasons for recognizing an indefinite useful life continue to exist.

The amount of impairment losses that we are required to recognize in the future may be significant, particularly in the event of material acquisitions or products that perform below our expectations. See *“—Our business could be adversely affected if we incur significant integration costs with respect to any of our bolt-on acquisitions or if we fail to successfully integrate such acquisitions”* and *“—Our ability to market our products successfully depends, in part, upon the acceptance of the products not only by end-users, but also by independent third parties, including public health insurers, doctors and pharmacists, depending on the jurisdiction in which we operate.”*

The future development of the macroeconomic environment, unsuccessful acquisitions or other factors could lead to possible significant impairments to be recognized in the future, potentially with a material adverse effect on our business, financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***Our business is subject to other operating risks, including natural disasters, fire, explosion, sabotage, terrorism and other criminal activities which may adversely affect our financial condition.***

Our operations are subject to risks normally incidental to manufacturing operations that may result in work stoppages and/or damage to property. These risks include unexpected disruptions in infrastructure, strikes, accidents, natural disasters, fire, explosion, sabotage, criminal activities and terrorism. While we protect ourselves against such risks to the extent possible and financially reasonable through appropriate insurance policies, it cannot be excluded that this protection will not be sufficient and that any of these events could have a material adverse impact on our financial condition, results of operations and ability to perform our obligations under the Additional Notes.

***We are subject to complex tax laws, and changes in tax laws or challenges to our tax position could adversely affect our results of operations and financial condition.***

Changes in tax laws could adversely affect our tax positions, including our effective tax rate or tax payments. We often rely on generally available interpretations of applicable tax laws and regulations. We cannot be certain that the relevant tax authorities are in agreement with our interpretation of these laws. If our tax positions are challenged by relevant tax authorities, the imposition of additional taxes could require us to pay taxes that we currently do not collect or pay or increase the costs of our services to track and collect such taxes, which could increase our costs of operations and have a negative effect on our business, financial condition, operating results and cash flows.

***Pending and future tax audits within our Group and changes in fiscal regulations could lead to additional tax liabilities.***

The Group's business activity is assessed for tax purposes based on currently applicable tax legislation taking into account current case law and administrative interpretations. There may be uncertainties, however, regarding the tax treatment of specific transactions and we may contest taxes assessed against us. As a result, there can be no assurance that the Group's current and future position on taxation matters will be accepted by the relevant tax authorities. Such uncertainties in the applicable tax legislation or case law, as well as any changes in interpretation by the tax authorities, could have a material adverse effect on the Group's net assets, financial condition and results of operations.

The Group is regularly subject to tax audits. While the Group believes that it has paid all material tax liabilities and filed all material tax returns as of the date of this offering memorandum, and made provisions that it believes to be adequate with respect to material tax risks resulting from current or past tax audits, there can be no assurance that no tax deficiency will be asserted against the Group or that the taxes assessed by the competent authorities pursuant to such tax audits will not exceed such provisions. All the tax assessments issued for periods that were not yet finally audited may be subject to review.

Additionally, mergers and restructuring measures as well as the implementation of fiscal unities (*steuerliche Organschaften*) may change our overall tax position.

***We could be adversely affected by changes to the composition of the eurozone.***

If one or more countries in the eurozone default on their debt obligations and/or cease using the euro, there may be significant, extended and generalized dislocation in the financial markets and in the wider European economy, which may negatively affect our business, results of operations and financial condition. The departure of one or more countries from the eurozone may lead to the imposition of exchange rate control laws. The departure or risk of departure from the euro by one or more eurozone countries could increase our exposure to changes in exchange rates and have negative effects on our existing relationships with our suppliers or customers, resulting in a negative impact on our business, financial condition and results of operations. In addition, the possible dissolution of the euro entirely, or the threat of such dissolution, could lead to increased market volatility, which in turn could have an adverse effect on our business. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations and for parties subject to other contractual provisions referencing the euro would be determined by laws in effect at such time. These potential developments could adversely affect our operations.

Market perceptions concerning the instability of the euro and the potential reintroduction of individual currencies within the eurozone could also have adverse consequences for us. Financial markets and the supply of credit may be negatively impacted by recent developments in Greece and fears surrounding the sovereign debts and/or fiscal deficits of several countries in Europe, the possibility of the further downgrading of or defaults on sovereign debt, concerns about a slowdown in growth in certain economies and uncertainties regarding the overall stability and sustainability of the euro given the economic and political circumstances in individual member states.

A deterioration in general economic conditions caused by instability in the eurozone could have a material adverse effect on our business, financial condition, results of operations and prospects.

***The grant of security by STADA and the other Senior Secured Notes Guarantors in favor of the Senior Secured Notes and the Senior Secured Credit Facilities resulted in a default under STADA's 2022 Notes and, potentially, will result in a default under the outstanding Schuldscheindarlehen.***

The Senior Secured Notes Indenture and the Senior Secured Credit Facilities Agreement contemplate the grant of guarantees and security interests by German Holdco, STADA and the other Senior Secured Notes Guarantors in favor of the Senior Secured Notes and the Senior Secured Credit Facilities. The grant of the guarantees was completed on July 18, 2018, and the grant of certain security interests in their property and assets by the Senior Secured Notes Guarantors in favor of the Senior Secured Notes and the Senior Secured Credit Facilities was completed on December 20, 2018. This grant of security has resulted in a default under the 2022 Notes and, potentially, if sufficient 2022 Notes accelerate, will result in a default under the outstanding *Schuldscheindarlehen*, which will entitle individual holders of the 2022 Notes and the *Schuldscheindarlehen* to demand repayment at a price of par plus accrued interest. While we have available liquidity to repay any individual holders of 2022 Notes and/or *Schuldscheindarlehen* who demand repayment of their principal and accrued interest, such defaults may result in a negative view of us in the local credit markets. In addition, repaying such indebtedness will mean that we have fewer debt-committed funds available for acquisitions, capital expenditures or other purposes.

***We may not be able to realize anticipated operational efficiencies and cost savings.***

In connection with the STADA Acquisition, we identified certain operational efficiency and cost saving measures that we started to implement in 2017. We have since identified additional measures, as described in footnote (H) under “*Summary—Summary Consolidated Financial and Other Information—Other Consolidated Financial and Pro Forma Data.*” We may not be able to realize the anticipated efficiencies and savings targeted by these measures, either in the amount or within the time frame that we currently anticipate, and the costs of achieving these measures may be higher than we expect.

Our estimated efficiency gains and cost savings are forward-looking and therefore subject to a number of assumptions about the timing, execution and costs associated with realizing the underlying measures. Such assumptions are inherently uncertain and are subject to significant business, economic and competition risks and uncertainties. There can be no assurance that such assumptions will turn out to be correct. In addition, the estimated efficiency gains and cost savings may be offset by deterioration in the markets in

which the Group operates, increases in other expenses or challenges in the business. As a result, the amount of efficiency gains and savings that we will actually realize and/or the timing of any such realization may differ significantly (and may be significantly lower or later) from the ones that we currently estimate, and we may incur significant costs in reaching estimated gains and savings. Failure to achieve expected efficiency gains and savings could have a material adverse effect on our business and results of operations.

### **Risks Relating to the Transactions**

***The Takeda Acquisition and the Walmark Acquisition are subject to certain conditions and risks.***

On November 4, 2019, we entered into the Takeda Acquisition Agreement with Takeda to acquire the Takeda CIS Assets. The Takeda Acquisition is subject to customary closing conditions. If these conditions are not satisfied on or prior to June 4, 2020, and such date has not been extended by the parties, the Takeda Acquisition Agreement may be terminated. Accordingly, the parties may not be able to complete the Takeda Acquisition in a timely fashion, without remedies, or at all. Any such remedies may make the Takeda Acquisition less attractive. Completion of the Takeda Acquisition is one of the conditions to the release of proceeds from the Escrow Account. If the Takeda Acquisition is not consummated on or before the Longstop Date or upon the occurrence of certain other events, the Takeda Temporary Notes will be subject to a special mandatory redemption as described in “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption*” and you may not obtain the return you expect to receive on the Takeda Temporary Notes. The realization of any risks related to uncertainties of the Takeda Acquisition could have a material adverse effect on our business, financial position and results of operations.

In addition, on November 3, 2019, we entered into the Walmark Acquisition Agreement with the Walmark Vendor to acquire all of the issued and outstanding share capital of Walmark. We currently expect the Walmark Acquisition to complete in the first quarter of 2020. The consummation of the Walmark Acquisition is subject to certain conditions, including approval by the competent competition authorities in Bulgaria, Czech Republic, Hungary and Romania, and the performance of certain closing actions. If these conditions are not satisfied on or prior to April 30, 2020, and such date has not been extended by the parties, the Walmark Acquisition Agreement will terminate and the proceeds from the Offering of the Walmark Tap Notes will be used for general corporate purposes.

***If the conditions precedent to the release of proceeds from the Escrow Account are not satisfied, the Senior Secured Notes Issuer will be required to redeem the Takeda Temporary Notes, which means that you may not obtain the return you expect on the Takeda Temporary Notes.***

The gross proceeds from the Offering will be held in the Escrow Account, pledged in favor of the Trustee for the benefit of the holders of the Takeda Temporary Notes, pending the satisfaction of certain conditions, some of which are outside of our control. If the Takeda Acquisition is not consummated on or before the Longstop Date or upon the occurrence of certain other events, the Takeda Temporary Notes will be subject to a special mandatory redemption as described in “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption*” and you may not obtain the return you expect to receive on the Takeda Temporary Notes.

The proceeds deposited in the Escrow Account will be limited to the gross proceeds of the Offering and will not be sufficient to pay the special mandatory redemption price, which is equal to 100% of the aggregate issue price of the Takeda Temporary Notes, plus accrued and unpaid interest and Additional Amounts, if any, from the later of the New Issue Date and the most recent interest payment date to, but excluding, the date of special mandatory redemption. Any shortfalls in the funds available in the segregated bank account will have to be paid by the Senior Secured Notes Issuer or STADA, and the claims of the holders of Takeda Temporary Notes will constitute unsecured claims against the Senior Secured Notes Issuer and are structurally and effectively subordinated to certain other claims. We cannot guarantee that the Senior Secured Notes Issuer will have enough cash to cover any such shortfall.

Your decision to invest in the Takeda Temporary Notes is made at the time of purchase. Changes in the business or financial position of the Group, the Takeda CIS Assets, or the terms of the Takeda Acquisition between the New Issue Date and the Takeda Acquisition Completion Date, may have an impact on our creditworthiness, and you will not be able to rescind your decision to invest in the Takeda Temporary Notes as a result thereof.

***Amendments made to the Walmark Acquisition Agreement and the Takeda Acquisition Agreement may have adverse consequences for holders of the Additional Notes.***

The Acquisitions are expected to be consummated in accordance with the terms of the Takeda Acquisition Agreement and the Walmark Acquisition Agreement. Each such agreement, however, may be amended and the closing conditions may be waived at any time by the parties thereto, without the consent of holders of the Additional Notes. Furthermore, any amendments made to the Takeda Acquisition Agreement and the Walmark Acquisition Agreement may make the Takeda Acquisition and the Walmark Acquisition less attractive, respectively. Even though the Escrow Release Conditions state that any amendments made to the Takeda Acquisition Agreement and the Walmark Acquisition Agreement may not be materially adverse to holders of the Additional Notes, we cannot ensure that this will be the case, which, in turn, may have an adverse effect on the return you expect to receive on the Additional Notes.

***We may not be able to enforce claims relating to a breach of the representations and warranties provided in connection with the Acquisitions and our ability to recover losses suffered as a result of such a breach may be limited.***

In connection with the Acquisitions, Takeda and the Walmark Vendors have given certain customary representations and warranties and indemnities. Nonetheless, third parties could seek to hold us responsible for any of the liabilities Takeda and the Walmark Vendors have agreed to retain, and we may not be able to enforce any claims against Takeda or the Walmark Vendors relating to breaches of these representations and warranties. The liability of Takeda and the Walmark Vendors under these agreements is very limited. Moreover, even if we are able to eventually recover any losses resulting from a breach of these representations and warranties, we may temporarily be required to bear these losses ourselves. In addition, if Takeda or the Walmark Vendors become insolvent or files for bankruptcy, our ability to recover any losses suffered as a result of Takeda's or the Walmark Vendors' breach may be limited by the liquidity of Takeda or the Walmark Vendors or the applicable laws governing the bankruptcy proceedings. In the event of such breach, we could incur losses, which could adversely impact our business, results of operations, financial condition and prospects.

***The Takeda CIS Assets and Walmark may have liabilities that are not known to us or that are greater than anticipated, and any indemnities under the Takeda Acquisition Agreement and the Walmark Acquisition Agreement or other agreements may be insufficient.***

The Takeda CIS Assets and Walmark may have liabilities that we failed or were unable to discover in the course of performing due diligence investigations in connection with the Acquisitions. In addition, the extent of liabilities we discovered in connection with our due diligence investigations or after the Acquisitions may be greater than we expected. We may learn of additional information about the Takeda CIS Assets and Walmark that adversely affects us, such as unknown or contingent liabilities and issues relating to compliance with applicable laws and regulations. For example, the Walmark Vendor has informed us that one of Walmark's competitors in Bulgaria has filed a claim with the Bulgarian antitrust authorities against Walmark's Bulgarian subsidiary, alleging unfair practices by Walmark. The Bulgarian authorities have dismissed the claim but the claimant has appealed. This may potentially result in Walmark Bulgaria facing a fine of up to 10 per cent of its turnover in the preceding financial year and subsequent actions for damages by the injured parties. In addition, we could become liable for overdue payables of the Takeda CIS Assets or Walmark to suppliers and employees that are not currently known to us, or we could become subject to tax or pension liabilities in respect of historical periods that we are not currently aware of or the amount of which we underestimated. In conducting our due diligence, we were required to rely on resources available to us, including public information, information provided by Takeda, the Walmark Vendor and third-party consultants and advisers. There can be no assurance that the due diligence we undertook has revealed or highlighted all relevant facts necessary or helpful in evaluating the Acquisitions. Any such unknown or previously underestimated liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations and our ability to fulfill our obligations under the Additional Notes.

***We may not be able to realize the anticipated operational efficiencies and cost savings from the Acquisitions.***

Following the Acquisitions, we expect to realize certain operational efficiency and cost saving measures. We may not be able to realize these measures, either in the amount or within the timeframe that we currently anticipate, and the costs of achieving these measures may be higher than what we expect. Our ability to realize such operational efficiency and cost savings measures may be affected by a number of



factors, including increases in expenses related to the Acquisitions. In addition, the Acquisitions have required, and will likely continue to require, substantial time and focus from management, which could adversely affect their ability to operate our business. These factors may offset the expected cost savings from the Acquisitions.

#### **Risks Relating to the Additional Notes and the Senior Secured Notes**

***The Takeda Temporary Notes will not be secured by the Senior Secured Notes Collateral and will not be guaranteed by the Senior Secured Notes Guarantors.***

The gross proceeds from the offering of the Takeda Temporary Notes will be held in the Escrow Account, pledged in favor of the Trustee for the benefit of the holders of the Takeda Temporary Notes. Although the Takeda Tap Notes will benefit from the Senior Secured Notes Collateral and the Senior Secured Notes Guarantees, while the proceeds of the Takeda Temporary Notes remain in the Escrow Account, the Takeda Temporary Notes will not be secured by the Senior Secured Notes Collateral, will not be guaranteed by the Senior Secured Notes Guarantors and will not be subject to the Intercreditor Agreement. In the event that the Takeda Acquisition is not consummated and the Takeda Temporary Notes are redeemed pursuant to the Special Mandatory Redemption, the Senior Secured Notes Issuer will be required to pay the Special Mandatory Redemption Price, including accrued and unpaid interest to the Special Mandatory Redemption Date. If the Special Mandatory Redemption Price exceeds the proceeds held in the Escrow Account, the Senior Secured Notes Issuer will be required to pay any shortfall from other available cash and any claim against the Senior Secured Notes Issuer in respect of any such shortfall will not be secured or guaranteed.

***The Senior Secured Notes Issuer and the Senior Secured Notes Guarantors will have control over the Senior Secured Notes Collateral, and the sale of particular assets could reduce the pool of assets securing the Senior Secured Notes.***

The security documents relating to the Senior Secured Notes allow the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors and the other Senior Secured Notes Collateral providers to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Senior Secured Notes Collateral to the extent that it relates to their assets. So long as no acceleration event has occurred and subject to certain conditions, the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors and the other Senior Secured Notes Collateral providers may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Senior Secured Notes Collateral, such as selling, factoring, abandoning or otherwise disposing of the Senior Secured Notes Collateral and making ordinary course cash payments, including repayments of indebtedness.

***If the Revolving Credit Facility is designated as a super senior liability in accordance with the terms of the Intercreditor Agreement, creditors under the Revolving Credit Facility and counterparties to certain hedging obligations and future indebtedness permitted to be incurred under the terms of the Senior Secured Notes Indenture and the Intercreditor Agreement ranking pari passu with the Revolving Credit Facility are entitled to be repaid with proceeds from the enforcement of the Senior Secured Notes Collateral in priority over the Senior Secured Notes.***

The Intercreditor Agreement includes provisions governing the sharing of proceeds from enforcement of the Senior Secured Notes Collateral. Such enforcement proceeds are required to be turned over to the Security Agent after certain events, including the acceleration of the Senior Secured Notes. The Security Agent is required to apply turned-over amounts and other recoveries by the Security Agent from enforcement actions toward discharging the super senior obligations (including, among others, (following the designation of the Revolving Credit Facility as a super senior liability in accordance with the terms of the Intercreditor Agreement) those under the Revolving Credit Facility, certain hedging obligations and future indebtedness that may be secured on a super senior basis (the “Super Senior Liabilities”)) in priority to applying any such amounts toward discharging the Senior Secured Notes. As such, in the event of a foreclosure of the Senior Secured Notes Collateral, you may not benefit from such recoveries if the then outstanding claims under such Super Senior Liabilities are greater than the proceeds recovered. Any proceeds remaining from an enforcement sale of Senior Secured Notes Collateral will, after all obligations under such Super Senior Liabilities have been discharged, be applied *pro rata* in repayment of the Senior Term Facilities, Senior Secured Notes, (if the Revolving Credit Facility has not been designated as a super senior liability in accordance with the terms of the Intercreditor Agreement) the Revolving Credit Facility and any other indebtedness that ranks *pari passu* with the Senior Secured Notes.



Furthermore, claims of our secured creditors that are secured by assets that do not also secure the Senior Secured Notes will have priority with respect to such assets over the claims of holders of the Senior Secured Notes. As such, the claims of the holders of the Senior Secured Notes will be effectively subordinated to the rights of such secured creditors to the extent of the value of the assets securing such indebtedness.

***Holders of the Senior Secured Notes may not control certain decisions regarding the Senior Secured Notes Collateral.***

The obligations under the Senior Secured Notes and the Senior Secured Notes Guarantees thereof are secured on a first-ranking basis with security interests over the Senior Secured Notes Collateral that also secure our obligations under the Super Senior Liabilities. The Senior Secured Notes Indenture also permits the Senior Secured Notes Collateral to secure additional indebtedness in accordance with the terms thereof and the Intercreditor Agreement. The Intercreditor Agreement provides that the Security Agent will only enforce the Senior Secured Notes Collateral as provided for in the Intercreditor Agreement, and the Indenture regulates the ability of the Senior Secured Notes Trustee or the holders of the Senior Secured Notes to instruct the Security Agent to take enforcement action.

Prior to the Senior Secured Notes Issuer designating any liabilities as Super Senior Liabilities in accordance with the terms of the Intercreditor Agreement (the “Designation Date”), the Security Agent is not required to take enforcement action unless instructed to do so by an instructing group that consists of the holders of the aggregate principal amount of the then outstanding Senior Secured Notes, the senior lenders, creditors in respect of indebtedness ranking *pari passu* with the senior creditors and creditors in respect of certain non-priority hedging obligations (the “Senior Secured Credit Participations”) which aggregate more than 50% of the total Senior Secured Credit Participations at that time (the “Majority Senior Secured Creditors”) (in each case acting through their respective creditor representatives). If the Majority Senior Secured Creditors do not instruct the Security Agent to enforce, or instruct the Security Agent to cease enforcing the transaction security, then creditors holding more than 50% of the total second lien credit participations (or, in certain cases, creditor holding 50% of the total topco credit participations) may instruct the Security Agent to enforce.

Following the Designation Date, the Security Agent is not required to take enforcement action unless instructed to do so by an instructing group that may consist of either (i) the Majority Senior Secured Creditors or (ii) creditors holding more than 50% of the total participations in Super Senior Liabilities at that time (the “Majority Super Senior Creditors”). The Security Agent is required to act in accordance with instructions received from the Majority Senior Secured Creditors, however: (i) if and to the extent the obligations under the Super Senior Liabilities have not been fully discharged in cash within six months of enforcement instructions first being issued by either the Majority Senior Secured Creditors or the Majority Super Senior Creditors; or (ii) if Security Agent has not commenced enforcement action within three months of enforcement instructions first being issued by either the Majority Senior Secured Creditors or the Majority Super Senior Creditors, then the enforcement instructions provided by the Majority Super Senior Creditors will prevail.

Following the transaction security having become enforceable, a creditor representative acting on behalf of the Majority Super Senior Creditors or the Majority Senior Secured Creditors may at any time provide immediate enforcement instructions to the Security Agent if the Majority Super Senior Creditors or the Majority Senior Secured Creditors determine in good faith that to delay the taking of any enforcement action could reasonably be expected to have a material adverse effect on the Security Agent’s ability to enforce any transaction security or the realization of enforcement proceeds. In such circumstances, the Security Agent shall act only with respect to the relevant asset or debtor that is the subject of such determination, in accordance with the first such notice of such determination and instructions as to enforcement received by the Security Agent, provided in each case that they are consistent with certain security enforcement principles.

If at any time an insolvency event has occurred with respect to any debtor (other than an insolvency event which is the direct result of any action taken by the Security Agent acting on the instructions of the Majority Super Senior Creditors or the Majority Senior Secured Creditors), the Security Agent shall act (i) prior to the Designation Date, in accordance with the instructions of the Majority Senior Secured Creditors (without any requirement to first consult with any junior creditors) or (ii) after the Designation Date and to the extent the Majority Super Senior Creditors have provided such instructions, in accordance with the instructions received from the Majority Super Senior Creditors.

The Security Agent may also refrain from acting in accordance with any instructions that may in its discretion require for any cost, loss or liability which it may incur in complying with those instructions until it has been indemnified and/or secured to its satisfaction.

To the extent we incur additional indebtedness that is secured on a *pari passu* basis with the Senior Secured Notes (such as indebtedness under the Term Loan B Facility), the voting interest of holders of Senior Secured Notes in an instructing group will be diluted commensurate with the amount of indebtedness we incur.

The creditors of any Super Senior Liabilities may have interests that are different from the interests of holders of the Senior Secured Notes and they may, subject to the terms of the Intercreditor Agreement, elect to pursue their remedies under the Security Documents at a time when it would be disadvantageous for the holders of the Senior Secured Notes to do so. In addition, if the Security Agent sells Senior Secured Notes Collateral consisting of the shares of the Senior Secured Notes Issuer or any of its subsidiaries as a result of an enforcement action in accordance with the Intercreditor Agreement, claims under the Senior Secured Notes Guarantees and the liens over any other assets of such entities securing the Senior Secured Notes and the Senior Secured Notes Guarantees may be released. See “*Description of Certain Financing Arrangements—Intercreditor Agreement*” and “*Description of the Senior Secured Notes—Security—Release of Liens*.”

Delays in enforcement could decrease or eliminate recovery values. In addition, the holders of the Senior Secured Notes will not have any independent power to enforce, or have recourse to, any of the Security Documents or to exercise any rights or powers arising under the Security Documents, except through the Security Agent as provided in the Intercreditor Agreement. By accepting the Senior Secured Notes, you will be deemed to have agreed to these restrictions. As a result of these restrictions, holders of the Senior Secured Notes will have limited remedies and recourse against the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors in the event of a default. See “*Description of Certain Financing Arrangements—Intercreditor Agreement*.”

***The Senior Secured Notes are, or will be, secured only to the extent of the value of the Senior Secured Notes Collateral that has been granted as security for the Senior Secured Notes and future secured indebtedness may be secured by certain assets that do not secure the Senior Secured Notes.***

The Senior Secured Notes are, or will be, secured only to the extent of the value of the Senior Secured Notes Collateral. See “*Description of the Senior Secured Notes—Security*.” Not all of our assets secure the Senior Secured Notes, and the Senior Secured Notes Indenture allows the Senior Secured Notes Issuer and its restricted subsidiaries to secure any future senior secured indebtedness (as defined in the Senior Secured Notes Indenture) permitted to be incurred under the Senior Secured Notes Indenture (which may be structurally senior to the Senior Secured Notes and the guarantees) with the property and assets of the restricted subsidiaries that do not secure the Senior Secured Notes. The value of such assets and property could be significant. If an event of default occurs and the obligations under the Senior Secured Notes are accelerated, the Senior Secured Notes and the Senior Secured Notes Guarantees thereof will not benefit from the assets securing such secured debt and will rank equally with the holders of other unsecured indebtedness of the Senior Secured Notes Issuer and its restricted subsidiaries with respect to any property or assets excluded from the Senior Secured Notes Collateral securing the Senior Secured Notes.

While the Senior Secured Notes Indenture creates certain obligations to provide additional guarantees and grant additional security over assets, or a particular class of assets, whether as a result of the acquisition or creation of future assets or subsidiaries or otherwise, such obligations are subject to the Agreed Security Principles. The Agreed Security Principles set forth in the Senior Secured Notes Indenture set out a number of limitations on the rights of the holders of the Senior Secured Notes to be granted security or guarantees in certain circumstances. The operation of the Agreed Security Principles may result in, among other things, the amount recoverable under any Senior Secured Notes Collateral provided being limited or security not being granted over a particular type or class of assets. Accordingly, the Agreed Security Principles may affect the value of the security or guarantees provided by the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors.

***The value of the Senior Secured Notes Collateral securing the Senior Secured Notes may not be sufficient to satisfy our obligations under the Senior Secured Notes and such collateral may be reduced or diluted under certain circumstances.***

If we default on the Senior Secured Notes, holders of the Senior Secured Notes will be secured only to the extent of the value of the assets underlying the security interests granted in favor of holders of the Senior Secured Notes. In the event of an enforcement of the security interests in respect of the Senior Secured Notes Collateral, the proceeds from the sale of the assets underlying the Senior Secured Notes Collateral may not be sufficient to satisfy the Senior Secured Notes Issuer's obligations with respect to the Senior Secured Notes. No appraisal of the value of the Senior Secured Notes Collateral has been made in connection with this Offering. The value of the assets underlying the pledges will also depend on many factors, including, among other things, whether or not the business is sold as a going concern, regulatory restrictions that could affect such sale, the ability to sell the assets in an orderly sale and the condition of the economies in which operations are located and the availability of buyers.

The shares and other Senior Secured Notes Collateral that are pledged or assigned for the benefit of the holders of the Senior Secured Notes may provide for only limited repayment of the Senior Secured Notes, in part because most of such collateral may not be liquid and its value to other parties may be less than their value to us. Likewise, we cannot assure you that the Senior Secured Notes Collateral will be saleable or, if saleable, that there will not be substantial delays in the liquidation thereof. Industry regulations in certain jurisdictions in which we operate, such as Germany and Russia, include restrictions on persons who may hold certain of our licenses, authorizations and consents that are necessary to operate our business. In the event of foreclosure, the transfer of our business operations may be prohibited or only permitted to a limited group of investors eligible to hold such assets, thereby decreasing the pool of potential buyers. Furthermore, entry into the security documents, enforcement of the Senior Secured Notes Collateral and any transfer of our operations may require, in certain jurisdictions, governmental or other regulatory consents, approvals or filings or might otherwise be challenged. Such consents, approvals or filings may take time to obtain or may not be obtained at all. As a result, enforcement may be delayed, a temporary shutdown of operations may occur and the value of the Senior Secured Notes Collateral may be significantly decreased. Most of our assets do not secure the Senior Secured Notes and it is possible that the value of the Senior Secured Notes Collateral will not be sufficient to cover the amount of indebtedness secured by such Senior Secured Notes Collateral. With respect to any shares of our subsidiaries pledged to secure the Senior Secured Notes and the Senior Secured Notes Guarantees thereof, such shares may also have limited value in the event of bankruptcy, insolvency or other similar proceedings in relation to the entity's shares that have been pledged because all of the obligations of the entity whose shares have been pledged must first be satisfied, leaving little or no remaining assets in the pledged entity. As a result, the creditors secured by a pledge of the shares of these entities may not recover anything of value in the case of an enforcement sale. In addition, the value of this Senior Secured Notes Collateral may decline over time. If the proceeds of the Senior Secured Notes Collateral are not sufficient to repay all amounts due on the Senior Secured Notes, the holders of the Senior Secured Notes (to the extent not repaid from the proceeds of the sale of the Senior Secured Notes Collateral) would have only a senior unsecured, unsubordinated claim against the Senior Secured Notes Issuer's and the Senior Secured Notes Guarantors' remaining assets.

The Senior Secured Notes Indenture also permits the granting of certain liens other than those in favor of the holders of the Senior Secured Notes on the Senior Secured Notes Collateral. To the extent that holders of other secured indebtedness or third parties enjoy liens, including statutory liens, whether or not permitted by the Senior Secured Notes Indenture or the security documents, such holders or third parties may have rights and remedies with respect to the Senior Secured Notes Collateral which, if exercised, could reduce the proceeds available to satisfy our obligations under the Senior Secured Notes. Moreover, if we issue additional Senior Secured Notes under the Senior Secured Notes Indenture, holders of such Senior Secured Notes would benefit from the same collateral as the holders of the Senior Secured Notes being offered hereby, thereby diluting your ability to benefit from the liens on the Senior Secured Notes Collateral.

***The granting of the Senior Secured Notes Guarantees and security interests in connection with the issuance of the Senior Secured Notes, or the incurrence of permitted debt in the future, may create or restart hardening or voidance periods for such security interests in accordance with the laws applicable in certain jurisdictions.***

The granting of the Senior Secured Notes Guarantees and security interests to secure the Senior Secured Notes may create hardening or voidance periods for such Senior Secured Notes Guarantees and security

interests in certain jurisdictions. The granting of shared security interests to secure future permitted debt may restart or reopen such hardening or avoidance periods in particular, as the Indentures permit the release and retaking of security granted in favor of the Senior Secured Notes in certain circumstances including in connection with the incurrence of future debt. The applicable hardening or avoidance period for these new security interests can run from the moment each new security interest has been granted or perfected. At each time, if the security interest granted or recreated were to be enforced before the end of the respective hardening or avoidance period applicable in such jurisdiction, it may be declared void or ineffective and/or it may not be possible to enforce it. See *“Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.”*

The same rights also apply following the issuance of the Senior Secured Notes in connection with the accession of further subsidiaries as additional Senior Secured Notes Guarantors and the granting of security interest over their relevant assets and equity interests for the benefit of holders of the Senior Secured Notes, as applicable.

***Enforcing your rights as a holder of the Senior Secured Notes or under the Senior Secured Notes Guarantees thereof or the Senior Secured Notes Collateral across multiple jurisdictions may prove difficult.***

The Senior Secured Notes Issuer is organized under the laws of Germany; the Senior Secured Notes Guarantors are organized under the laws of Germany, England and Wales, The Netherlands, Belgium, the Republic of Ireland and Northern Ireland; the Senior Secured Notes Collateral includes the shares of certain of our subsidiaries incorporated under the laws of those jurisdictions, and certain present and future intercompany loan receivables held by the Senior Secured Notes Issuer and certain of its subsidiaries in respect of debtors in certain of these jurisdictions. In the event of bankruptcy, insolvency, administration or a similar event, proceedings could be initiated in any of these jurisdictions. The rights of holders of the Senior Secured Notes, the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral are likely to be subject to insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such complex proceedings. In addition, the multi-jurisdictional nature of enforcement over the Senior Secured Notes Collateral may limit the realizable value of the Senior Secured Notes Collateral.

The insolvency, administration and other laws of the jurisdiction of organization of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors may be materially different from, or conflict with, each other and with the laws of the United States, including in the areas of rights of creditors, priority of governmental and other creditors, the ability to obtain post-petition interest, the duration of proceeding and preference periods. The application of these laws, and any conflict between them, could call into question whether, and to what extent, the laws of any particular jurisdiction should apply, adversely affect your ability to enforce your rights under the guarantees and the security documents in these jurisdictions or limit any amounts that you may receive.

***The security interests in the Senior Secured Notes Collateral have been, or will be, granted to the Security Agent rather than directly to the holders of the Senior Secured Notes. The ability of the Security Agent to enforce the Senior Secured Notes Collateral may be restricted by local law.***

The security interests that secure, or will secure, the obligations of the Senior Secured Notes Issuer under the Senior Secured Notes and the obligations of the Senior Secured Notes Guarantors under the Senior Secured Notes Guarantees thereof have not been, or will not be, granted directly to the holders of the Senior Secured Notes but to the respective Security Agent, and thus the holders of the Senior Secured Notes do not have any independent power to enforce, or have recourse to, any of the security documents or to exercise any rights or powers arising under the security documents except through the relevant Security Agent as provided in the Intercreditor Agreement. By accepting a Senior Secured Note, you will be deemed to have agreed to these restrictions. As a result of these restrictions, holders of the Senior Secured Notes will have limited remedies and recourse against us in the event of a default. See *“Description of Certain Financing Arrangements—Intercreditor Agreement.”*

In addition, the ability of the Security Agent to enforce the security interests is subject to mandatory provisions of the laws of each jurisdiction in which security interests over the Senior Secured Notes Collateral are taken. For example, the laws of certain jurisdictions may not allow for the appropriation of certain pledged assets, but require a sale through a public auction and certain waiting periods may apply. There is some uncertainty under the laws of certain jurisdictions as to whether obligations to beneficial owners of the Senior Secured Notes that are not identified as registered holders in a security document will



be validly secured. In certain jurisdictions, including Germany, due to the laws and other jurisprudence governing the creation and perfection of security interests and the enforceability of such security interests, the Intercreditor Agreement provides for the creation of “parallel debt” obligations in favor of the relevant Security Agent (“Parallel Debt”) mirroring the obligations of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors owed to holders of the Senior Secured Notes under or in connection with the Senior Secured Notes Indenture, as applicable (“Principal Obligations”). All or part of the pledges and other security interests in such jurisdictions have been, or will be, granted to the relevant Security Agent as security interests for the Parallel Debt and do not, or will not, directly secure the Principal Obligations. Under the provisions of the Intercreditor Agreement, the Parallel Debt will be at all times in the same amount and payable at the same time as the Principal Obligations and any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. In respect of the security interests granted to secure the Parallel Debt, the holders of the Senior Secured Notes do not have direct security interests and will not be entitled to take enforcement actions in respect of such security interests except through the relevant Security Agent. Therefore, the holders of the Senior Secured Notes bear the risk of insolvency or bankruptcy of the relevant Security Agent. In addition, the Parallel Debt construct has not been tested under law in certain of these jurisdictions and to the extent that the security interests in the Senior Secured Notes Collateral created under the Parallel Debt construct are not validly granted, are unenforceable or are successfully challenged by other parties, holders of the Senior Secured Notes will not receive any proceeds from an enforcement of such security interests in the Senior Secured Notes Collateral. See *“Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.”*

***Rights in the Senior Secured Notes Collateral may be adversely affected by the failure to perfect security interests in the Senior Secured Notes Collateral.***

Under applicable law, a security interest in certain tangible and intangible assets can only be properly perfected, and its priority retained, through certain actions undertaken by the secured party or the grantor of the security, as applicable. The liens on the Senior Secured Notes Collateral securing the Senior Secured Notes may not be perfected with respect to the claims of the Senior Secured Notes if we fail or are unable to take the actions necessary to perfect any of these liens. Under German law, the creation of a valid security interest under a German law governed pledge agreement in relation to certain assets (such as bank accounts) may be subject to the delivery of a notice of pledge by the security agent or the security provider to a third party (for example, the notice of pledge to the account bank in case of a pledge over bank accounts). Any failure to perfect any security interest in the Senior Secured Notes Collateral may result in the invalidity of the relevant security interest or adversely affect the priority of such security interest in favor of the Senior Secured Notes against third parties, including a trustee in bankruptcy and other creditors who claim a security interest in the Senior Secured Notes Collateral. The Trustees and the Security Agent will not be under any obligation or responsibility to take any steps or action to perfect, or ensure the perfection of, any such liens.

***There are circumstances other than the repayment or discharge of the Senior Secured Notes under which the Senior Secured Notes Collateral securing the Senior Secured Notes will be released automatically without your consent or the Trustees or the Security Agent obtaining your further consent.***

Under a variety of circumstances, the Senior Secured Notes Collateral securing the Senior Secured Notes will be released automatically, including a sale, transfer or other disposal of such Senior Secured Notes Collateral in a transaction that does not violate the asset sale covenant of the Senior Secured Notes Indenture, and in connection with an enforcement sale permitted under the Intercreditor Agreement. The Senior Secured Notes Indenture also permits us to designate one or more restricted subsidiaries that are Senior Secured Notes Guarantors as unrestricted subsidiaries. If we designate a Guarantor as an unrestricted subsidiary for purposes of the Senior Secured Notes Indenture, all of the liens on the Senior Secured Notes Collateral owned by such subsidiary and any guarantees of the Senior Secured Notes by such subsidiary will be released under the Senior Secured Notes Indenture, subject to certain conditions. Designation of an unrestricted subsidiary as such will reduce the aggregate value of the Senior Secured Notes Collateral securing the Senior Secured Notes to the extent of liens securing the shares of such unrestricted subsidiary or of its subsidiaries.



Furthermore, under German law a secured party is, upon request by the relevant security grantor, obligated to release security if the realizable value of the security is significantly higher than the value of the obligations secured by such security.

Finally, if the secured obligations are exchanged, novated or terminated, a pledge or other accessory security interest created pursuant to a security document governed by German law might be released as a matter of German law.

*The insolvency laws of Germany and other applicable jurisdictions may not be as favorable to you as the insolvency laws of the United States or those of another jurisdiction with which you are familiar; other limitations on the Senior Secured Notes Guarantees and the Security Interests, including fraudulent conveyance statutes, may adversely affect their validity and enforceability.*

Our obligations under the Senior Secured Notes are, or will be, guaranteed by the relevant Senior Secured Notes Guarantors and secured by security interests over the Senior Secured Notes Collateral. The Senior Secured Notes Issuer is organized under the laws of Germany and the Senior Secured Notes Guarantors are organized under the laws of Germany, England and Wales, The Netherlands, Belgium, the Republic of Ireland and Northern Ireland. There is a rebuttable presumption that the “centre of main interest” as defined in the Council of the European Union Regulation No. 2015/848 on Insolvency Proceedings is the jurisdiction where the registered office is situated. In addition, the Senior Secured Notes Collateral includes a pledge over the shares in certain of our subsidiaries incorporated under the laws of Germany, England and Wales, The Netherlands, Belgium, the Republic of Ireland and Northern Ireland and pledges of certain present and future intercompany loan receivables held by the Senior Secured Notes Issuer and certain of their subsidiaries incorporated under the laws of Germany, England and Wales, The Netherlands, the Republic of Ireland and Northern Ireland.

The insolvency laws of foreign jurisdictions may not be as favorable to your interests as the laws of the United States or other jurisdictions with which you are familiar. In the event that any one or more of the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors or any other of the Senior Secured Notes Issuer’s subsidiaries experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

Although laws differ among the jurisdictions, in general, applicable fraudulent transfer and conveyance and equitable principles, insolvency laws and limitations on the enforceability of judgments obtained in courts in such jurisdictions could limit the enforceability of the Senior Secured Notes (and the Takeda Temporary Notes) against the Senior Secured Notes Issuer, the enforceability of a Guarantee (as defined herein) against a Guarantor and the enforceability of the security interests. In certain circumstances the court may also void the Security Interest or the Guarantee if the company is close to or near insolvency. The following discussion of fraudulent transfer, conveyance and insolvency law, although an overview, describes generally applicable terms and principles, which are defined under the relevant jurisdiction’s fraudulent transfer and insolvency statutes.

In an insolvency proceeding, it is possible that creditors of the Senior Secured Notes Guarantors or the appointed insolvency administrator may challenge the guarantees and the Security Interests, and intercompany obligations generally, as preferences, transaction at an undervalue, invalid charges, fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of a Guarantor’s obligations under its Guarantee or the Security Interests provided by such security provider;
- direct that the Senior Secured Notes Issuer and the holders of the Senior Secured Notes return any amounts paid under a Senior Secured Notes Guarantee or any Security Interest to the relevant Senior Secured Notes Guarantor or security provider or to a fund for the benefit of the Senior Secured Notes Guarantor’s or security provider’s creditors; and
- take other action that is detrimental to you.

If we cannot satisfy our obligations under the Senior Secured Notes and any Senior Secured Notes Guarantee or Security Interest is found to be a preference, transaction at an undervalue, fraudulent transfer or conveyance or is otherwise set aside, we cannot assure you that we can ever repay in full any amounts outstanding under the Senior Secured Notes. In addition, the liability of each Guarantor or

security provider under its Senior Secured Notes Guarantee or the Security Interests is limited to the amount that will result in such guarantee or Security Interests not constituting a fraudulent conveyance or improper corporate distribution or otherwise being set aside. The amount recoverable from the Senior Secured Notes Guarantors and security providers under the Security Documents is also limited. However, there can be no assurance as to what standard a court would apply in making a determination of the maximum liability of each. There is also the possibility that the entire Guarantee or security interest may be set aside, in which case the entire liability may be extinguished. See also “*—Corporate benefit, financial assistance laws, capital maintenance and other limitations on the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral may adversely affect the validity and enforceability of the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral.*”

In order to initiate any of these actions under fraudulent transfer or other applicable principles, courts would, for example, need to find that, at the time the Senior Secured Notes Guarantees were issued or the Security Interests created, the Guarantor or security provider:

- issued such Guarantee or created such Security Interest with the intent of hindering, delaying or defrauding current or future creditors or with a desire to prefer some creditors over others, or created such security after its insolvency;
- issued such Guarantee or created such Security Interest in a situation where a prudent business person as a shareholder of such Guarantor or security provider would have contributed equity to such Guarantor or security provider or where the relevant beneficiary of the Guarantee or security interest knew or should have known that the Guarantor or security provider was insolvent or a filing for insolvency had been made; or
- received less than reasonably equivalent value for incurring the debt represented by the Guarantee or security interest on the basis that the Guarantee or security interest were incurred for our benefit, and only indirectly the Guarantor’s or security provider’s benefit, or on some other basis and (i) was insolvent or rendered insolvent by reason of the issuance of the Guarantee or the creation of the Security Interest, or subsequently became insolvent for other reasons; (ii) was engaged, or was about to engage, in a business transaction for which the Guarantor’s or security provider’s assets were unreasonably small; or (iii) intended to incur, or believed it would incur, debts beyond its ability to make required payments as and when they would become due.

Different jurisdictions evaluate insolvency on various criteria, but a Guarantor or security provider generally may, in different jurisdictions, be considered insolvent at the time it issued a Guarantee or created any Security Interest if:

- its liabilities exceed the fair market value of its assets;
- it cannot pay its debts as and when they become due; or
- the present saleable value of its assets is less than the amount required to pay its total existing debts and liabilities, including contingent and prospective liabilities, as they mature or become absolute.

Although we believe that both the Senior Secured Notes Issuer and the Group are solvent, and will be so after giving effect to the Transactions, there can be no assurance as to which standard a court would apply in determining whether a Guarantor or security provider was “insolvent” as of the date the Senior Secured Notes Guarantees were issued or the Security Interests were created or that, regardless of the method of valuation, a court would not determine that a Guarantor or security provider was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor or security provider was insolvent on the date its Guarantee was issued or the Security Interests were created, that payments to holders of the Senior Secured Notes constituted fraudulent transfers on other grounds.

For an overview of certain insolvency laws and enforceability issues as they relate to the Senior Secured Notes Guarantees and Security Interests, see “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.*”

***Corporate benefit, financial assistance laws, capital maintenance and other limitations on the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral may adversely affect the validity and enforceability of the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral.***

Certain of the Senior Secured Notes Guarantors are organized under the laws of Germany, England and Wales, The Netherlands, Belgium, the Republic of Ireland and Northern Ireland. Enforcement of the

obligations under a Guarantee against, and/or any Senior Secured Notes Collateral provided by, as applicable, any such Guarantor will be subject to certain defenses available to the Senior Secured Notes Issuer or the relevant Guarantor, as the case may be. These laws and defenses may include those that relate to fraudulent conveyance, financial assistance, corporate benefit, capital maintenance, liquidity maintenance or similar laws as well as regulations or defenses affecting the rights of creditors generally, particularly by limiting the amounts recoverable under the Senior Secured Notes Guarantees and Senior Secured Notes Collateral, as applicable, and the amounts recoverable thereunder will be limited to the maximum amount that can be guaranteed or secured by a particular Guarantor or security provider under the applicable laws of each jurisdiction, to the extent that the granting of such Guarantee or Senior Secured Notes Collateral is not in the relevant Guarantor's or security provider's corporate interests, or the burden of such Guarantee or Senior Secured Notes Collateral exceeds the benefit to the relevant Guarantor or security provider, or such Guarantee or Senior Secured Notes Collateral would be in breach of capital maintenance, liquidity maintenance or thin capitalization rules or any other general statutory laws and/or would cause the directors of such subsidiary Guarantor or security provider to contravene their fiduciary duties and incur civil or criminal liability.

In relation to public limited liability companies (*Aktiengesellschaften*, "AG") strict German capital maintenance rules as set out in the German Stock Corporation Act (*Aktiengesetz*, "AktG") apply. Senior Secured Notes Guarantees and/or security interests provided by an AG and/or its direct or indirect subsidiaries in order to guarantee or secure liabilities of any direct or indirect parent or affiliate company (such as the Senior Secured Notes Issuer) are, unless a specific exception applies, considered disbursements violating German capital maintenance law. Furthermore, the granting of guarantees and/or security interests by an AG or its direct or indirect subsidiaries which serve the purpose of supporting the financing of the acquisition of shares in such AG (*financial assistance*) is prohibited and, therefore, invalid.

Investors should note that STADA is incorporated in Germany in the form of an AG.

According to the wording of the law, both the prohibition of financial assistance as well as the capital maintenance requirements described above are not applicable while a domination and/or profit and loss transfer agreement (*Beherrschungs- und/oder Gewinnabführungsvertrag*) exists between the AG and the shareholder on whose instructions the relevant guarantee and/or security interest is granted. However, neither the Senior Secured Notes Indenture nor the Senior Secured Credit Facilities Agreement contain any covenant requiring the Senior Secured Notes Issuer or any of its respective subsidiaries to take any efforts to implement or maintain a domination and/or profit and loss transfer agreement. Furthermore, even in case a domination and/or profit and loss transfer agreement is in place and provided that certain other requirements are met, the granting of guarantees and/or security interests by an AG and/or its direct or indirect subsidiaries (whether or not to support the acquisition of such AG) may be considered to be in violation of the capital maintenance rules and financial assistance restrictions, in which case such guarantees and security interests can be void, unenforceable, restricted and/or subject to a redemption claim against the beneficiary. In particular, under the prevailing view in German literature, the domination and/or profit and loss transfer agreement exemption only applies if payments under the guarantee or enforcement of the security interests, as applicable, do not cause the dominated entity (i.e., the AG) to incur a balance sheet loss for which it cannot reasonably expect to be compensated for by the dominating entity due to the financial condition of the dominating entity. Therefore, any Senior Secured Notes Guarantees and/or Senior Secured Notes Collateral provided by an AG, including STADA and any of its direct and indirect subsidiaries will be subject to certain contractual limitations (so called "limitation language") contained in the Senior Secured Notes Indenture (or any other document governing the Senior Secured Notes Guarantees) and Security Documents, respectively, designed to ensure compliance with applicable capital maintenance, liquidity maintenance or any other general statutory laws. With respect to the domination and/or profit and loss transfer agreement exemption, such contractual enforcement limitations will apply notwithstanding the existence of a domination and/or profit and loss transfer agreement if and to the extent the enforcement of the Senior Secured Notes Guarantee and/or Senior Secured Notes Collateral, as applicable, provided by an AG, including STADA and/or any of its direct and indirect subsidiaries will, or must expected to, result in an annual loss of the respective AG and such annual loss would not be, or cannot expected to be, compensated for by a compensation claim under the domination and/or profit and loss transfer agreement that can be accounted for in the balance sheet of STADA at full (*vollwertig*).

Senior Secured Notes Guarantees and/or security interests granted by a German limited liability company (*Gesellschaft mit beschränkter Haftung*, "GmbH"), a partnership with a GmbH as liable partner (i.e., a GmbH & Co. KG) or a stock corporation (*Aktiengesellschaft*, "AG") for the purpose of guaranteeing

or securing liabilities of its direct or indirect shareholders or a subsidiary of such shareholders (excluding direct or indirect subsidiaries of the relevant GmbH, GmbH & Co. KG or AG) are considered to constitute a benefit for such shareholder and therefore are subject to certain capital maintenance and liquidity maintenance rules. Therefore, any Senior Secured Notes Guarantees and/or Senior Secured Notes Collateral provided by a GmbH, GmbH & Co. KG or AG, including by the Senior Secured Notes Issuer, are subject to certain contractual limitations (so called “limitation language”) contained in the respective Indentures (or any other document under which any Guarantee is granted) and Security Documents, respectively, designed to ensure compliance with applicable capital maintenance, liquidity maintenance or any other general statutory laws. The pledge over STADA shares is granted by German Holdco and is subject to “limitation language.”

Any guarantee and/or security interest granted by a GmbH, GmbH & Co. KG or AG may be held invalid pursuant to Section 138 of the BGB and would therefore not be enforceable if, at the time of the creation or enforcement of any such guarantee and/or security interest, amongst others, the third-party creditor and the affiliate have acted in fraudulent conveyance (*kollusives Zusammenwirken*) to the detriment of the GmbH, GmbH & Co. KG or AG or other third-party creditors of such entity.

As a result, any Guarantor’s or security provider’s liability under its Guarantee or Senior Secured Notes Collateral could be materially reduced or eliminated, depending upon the law and contractual enforcement restrictions applicable to it. This could lead to a situation in which such Guarantee or Senior Secured Notes Collateral cannot be enforced at all. It is possible that a Guarantor or security provider, or any of their creditors, or the bankruptcy trustee or other insolvency office holder in the case of a bankruptcy/insolvency of a Guarantor or security provider, may contest the validity and enforceability of the Guarantor’s Guarantee or the security provider’s Senior Secured Notes Collateral on any of the above grounds and that the applicable court may determine that the Guarantee or Senior Secured Notes Collateral should be limited or voided. To the extent that any limitations on the relevant Senior Secured Notes Guarantees or Senior Secured Notes Collateral apply, the Senior Secured Notes would be to that extent effectively subordinated to all liabilities of the applicable Guarantor or security provider, including trade payables of such Guarantor or security provider. Future Senior Secured Notes Guarantees and Senior Secured Notes Collateral may be subject to similar limitations.

See “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.*”

***Transfer of the Additional Notes will be restricted, which may adversely affect the value of the Additional Notes.***

Because the Additional Notes and the Senior Secured Notes Guarantees have not been, and will not be, and are not required to be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction, they may not be offered or sold in the United States except to QIBs in accordance with Rule 144A, to non-U.S. persons in offshore transactions in accordance with Regulation S or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and all other applicable laws. These restrictions may limit the ability of investors to resell the Additional Notes. It is the obligation of investors in the Additional Notes to ensure that all offers and sales of the Additional Notes in the United States and other countries comply with applicable securities laws. See “*Transfer Restrictions.*”

***The Additional Notes will initially be held in book-entry form and therefore investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.***

The Additional Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream.

Interests in the global Additional Notes will trade in book-entry form only, and Additional Notes in definitive registered form, or Definitive Registered Notes (as defined below), will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Additional Notes. The common depositary, or its nominee, for Euroclear and Clearstream will be the sole registered holder of the global notes representing the Additional Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Additional Notes will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants’ accounts that hold book-entry interests in the global Additional Notes representing the Additional Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and



Clearstream, the Senior Secured Notes Issuer, the Trustee, the Paying Agent, the Transfer Agent and the Registrar will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if investors own a book-entry interest, they must rely on the procedures of Euroclear and Clearstream, and if investors are not participants in Euroclear and Clearstream, they must rely on the procedures of the participant through which they own their interest, to exercise any rights and obligations of a holder of the Additional Notes under the Indentures.

Unlike the holders of the Additional Notes themselves, owners of book-entry interests will not have the direct right to act upon the Senior Secured Notes Issuer's solicitations for consents, requests for waivers or other actions from holders of the Additional Notes. Instead, if an investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable such investor to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indentures, unless and until Definitive Registered Notes are issued in respect of all book-entry interests, if investors own book-entry interests, they will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Additional Notes. See *"Book-Entry, Delivery and Form."*

***There may not be an active trading market for the Additional Notes, in which case your ability to sell the Additional Notes will be limited.***

We cannot assure you as to:

- the liquidity of any market in the Additional Notes;
- your ability to sell your Additional Notes; or
- the prices at which you would be able to sell your Additional Notes.

Future trading prices of the Additional Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. The liquidity of a trading market for the Additional Notes may be adversely affected by a general decline in the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Additional Notes. Any such disruption may have a negative effect on you, as a holder of Additional Notes, regardless of our prospects and financial performance. The Initial Purchasers have advised that they intend to make a market in the Additional Notes after completing the Offering. However, they have no obligation to do so and may discontinue market-making activities at any time without notice. In addition, such market-making activity will be subject to limitations imposed by the U.S. Securities Act and other applicable laws and regulations. In addition, if the Additional Notes are issued with 1.0 percentage points or more of original issue discount the Tap Notes will not be fungible with the Existing Senior Secured Notes, resulting in a less liquid trading market for such Tap Notes. As a result, there may not be an active trading market for the Additional Notes. If no active trading market develops, you may not be able to resell your Additional Notes at a fair value, if at all.

***The Senior Secured Notes and the Senior Secured Notes Guarantees will be structurally subordinated to the claims of creditors, including depositors, trade creditors and preferred stockholders (if any), of our non-Senior Secured Notes Guarantor subsidiaries.***

Generally, claims of creditors, including depositors, trade creditors and preferred stockholders (if any) of non-Senior Secured Notes Guarantor subsidiaries of the Senior Secured Notes Issuer, are entitled to payments of their claims from the assets of such subsidiaries before these assets are made available for distribution to their respective parent entity or the creditors of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors. Accordingly, in the event that any non-Senior Secured Notes Guarantor subsidiary of the Senior Secured Notes Issuer becomes insolvent, is liquidated, reorganized or dissolved or is otherwise wound up other than as part of a solvent transaction:

- the creditors of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors (including the holders of the Tap Notes) will have no right to proceed against the assets of such non-Senior Secured Notes Guarantor subsidiary; and



- creditors of such non-Senior Secured Notes Guarantor subsidiary, including depositors, trade creditors and preferred stockholders (if any) will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before the Senior Secured Notes Issuer or any Senior Secured Notes Guarantor, as a direct or indirect shareholder (as applicable), will be entitled to receive any distributions from such subsidiary.

As such, the Senior Secured Notes and the Senior Secured Notes Guarantees will be structurally subordinated to the creditors, including depositors, trade creditors and any preferred stockholders (if any) of the non-Senior Secured Notes Guarantor subsidiaries of the Senior Secured Notes Issuer. In addition, the Indentures will, subject to certain limitations, permit these non-Senior Secured Notes Guarantor subsidiaries to incur substantial additional indebtedness without such incurrence constituting a default under the Indentures, and such indebtedness may also be secured. The Senior Secured Notes Indenture does not contain any limitation on the amount of other liabilities, such as deposits and trade payables, that may be incurred by these subsidiaries.

***Investors may not be able to recover in civil proceedings for U.S. securities law violations.***

The Senior Secured Notes Issuer and the Senior Secured Notes Guarantors are organized or incorporated outside the United States, and their business is substantially conducted outside the United States. The directors and executive officers of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors are non-residents of, and substantially all of their assets are located outside of, the United States. Although the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors have or will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on the directors and executive officers of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors. In addition, as substantially all of the assets of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors and their subsidiaries and those of their directors and executive officers are located outside of the United States, you may be unable to enforce against them judgments obtained in U.S. courts. Moreover, in light of recent decisions of the U.S. Supreme Court, actions of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors may not be subject to the civil liability provisions of the federal securities laws of the United States.

Additionally, there is uncertainty as to whether the courts of foreign jurisdictions would enforce (i) judgments of United States courts obtained against the Senior Secured Notes Issuer, the Senior Secured Notes Guarantors and the directors and executive officers who are not residents of the United States predicated upon the civil liability provisions of the United States federal and state securities laws or (ii) in original actions brought in such foreign jurisdictions against us or such persons predicated upon the United States federal and state securities laws.

The United States is not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards, rendered in civil and commercial matters, with Germany, and The Netherlands. For further information see “*Service of Process and Enforcement of Civil Liabilities.*”

***The Senior Secured Notes Issuer may not be able to repurchase the Senior Secured Notes upon a change of control. In addition, under certain circumstances, the Senior Secured Notes Issuer may have the right to purchase all outstanding Senior Secured Notes in connection with a tender offer, even if certain holders do not consent to the tender.***

If a change of control (as defined in the respective Indenture) occurs, the Senior Secured Notes Issuer will be required to make an offer to purchase all the outstanding Senior Secured Notes at a price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest and additional amounts, if any, to, but excluding, the date of purchase. In such a situation, the Senior Secured Notes Issuer may not have enough funds to pay for all of the Senior Secured Notes that are tendered under any such offer. If a significant principal amount of Senior Secured Notes is tendered, the Senior Secured Notes Issuer will likely have to obtain financing to pay for the tendered Senior Secured Notes. However, the Senior Secured Notes Issuer may not be able to obtain such financing on acceptable terms, if at all. A change of control may also result in a mandatory prepayment under the Senior Secured Credit Facilities Agreement and agreements governing any future indebtedness and may result in the acceleration of such indebtedness. Any failure by the Senior Secured Notes Issuer to offer to purchase the Senior Secured Notes upon a change of control would constitute a default under the Indentures, which would, in turn, constitute a default under the Senior Secured Credit Facilities Agreement.

The change of control provision contained in the Indentures may not necessarily afford you protection in the event of certain important corporate events, including reorganizations, restructurings, mergers, recapitalizations or other similar transactions involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a change of control as defined in the Senior Secured Notes Indenture.

In addition, the occurrence of certain events that might otherwise constitute a change of control will be deemed not to be a change of control, provided that upon consummation thereof, a certain consolidated net leverage ratio of the Senior Secured Notes Issuer and its restricted subsidiaries is met.

In addition, in connection with certain tender offers for the Senior Secured Notes, if holders of not less than 90% in aggregate principal amount of the outstanding Senior Secured Notes validly tender and do not withdraw such Senior Secured Notes in such tender offer and the relevant Issuer, or any third party making such a tender offer in lieu of such Senior Secured Notes Issuer, purchases, all of the Senior Secured Notes validly tendered and not withdrawn by such holders, the Senior Secured Notes Issuer or such third party will have the right to redeem the Senior Secured Notes that remain outstanding in whole, but not in part, following such purchase at a price equal to the price offered to each other holder of Senior Secured Notes. See *“Description of the Senior Secured Notes—Optional Redemption.”*

***The term “all or substantially all” in the context of a change of control has no clearly established meaning under relevant law and is subject to judicial interpretation such that it may not be certain that a change of control has occurred or will occur.***

Upon the occurrence of a transaction that constitutes a change of control under the Senior Secured Notes Indenture, the Senior Secured Notes Issuer will be required to make an offer to repurchase all outstanding Senior Secured Notes tendered. The definition of “change of control” in the Senior Secured Notes Indenture includes (with certain exceptions) a disposition of all or substantially all of the assets of the Senior Secured Notes Issuer and its restricted subsidiaries (taken as a whole), to any person. Although there is a limited body of case law interpreting the phrase “all or substantially all,” it has no clearly established meaning under relevant law, varies according to the facts and circumstances of the subject transaction and is subject to judicial interpretation. Accordingly, in certain circumstances, there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of “all or substantially all” of the assets of a person, and therefore it may be unclear whether a change of control has occurred and whether the relevant Issuer is required to make an offer to repurchase the Notes.

***Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.***

One or more independent credit rating agencies may assign credit ratings to the Senior Secured Notes. The credit ratings address our ability to perform our obligations under the terms of the Senior Secured Notes and credit risks in determining the likelihood that payments will be made when due under the Senior Secured Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Senior Secured Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurances can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Senior Secured Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Senior Secured Notes.

***Certain covenants and events of default will be suspended if we receive investment grade ratings.***

The Senior Secured Notes Indenture provides that, if at any time following the date of Senior Secured Notes Indenture, the Senior Secured Notes issued under the Senior Secured Notes Indenture receive an investment grade rating of Baa3 or better by Moody’s and BBB – or better by S&P, and no default or event of default has occurred and is continuing, then beginning that day and continuing until such time as such Senior Secured Notes are no longer rated investment grade by either ratings agency, certain covenants will cease to be applicable to such Senior Secured Notes. See *“Description of the Senior Secured Notes—Certain Covenants—Suspension of Covenants on Achievement of Investment Grade Status.”* At any time when these covenants are suspended, we will be able to, among other things, incur additional indebtedness, pay cash

dividends and redeem subordinated indebtedness without restriction, each of which may conflict with the interests of holders of the Senior Secured Notes. There can be no assurance that the Senior Secured Notes will ever achieve an investment grade rating or that any such rating if achieved will be maintained.

***The Additional Notes may not become, and the Additional Notes and the Senior Secured Notes may not remain listed on the Exchange.***

Application will be made to The International Stock Exchange Authority Limited for the listing of and permission to deal in the Additional Notes on the Official List of The International Stock Exchange (the “Exchange”). However, there can be no assurance that the Additional Notes will become listed. The Existing Senior Secured Notes are listed and permitted to deal on the Exchange. There can be no assurance that Senior Secured Notes will remain listed on the Exchange. If the Senior Secured Notes Issuer cannot maintain the listing on the Exchange and the admission to dealing on the Official List thereof, or if it becomes unduly burdensome to make or maintain such listing, the Senior Secured Notes Issuer may cease to make or maintain such listing on the Official List of the Exchange. Listing of any of the Additional Notes on the Exchange does not imply that a public offering of any of the Additional Notes in the Channel Islands or the Isle of Man has been authorized. Although no assurance is made as to the liquidity of the Additional Notes or the Senior Secured Notes as a result of listing on the Official List of the Exchange or another recognized listing exchange for comparable Senior Secured Notes Issuer, failure to be approved for listing of the Additional Notes or the delisting of the Additional Notes and/or the Senior Secured Notes from the Official List of the Exchange or another listing exchange may have an adverse effect on a holder’s ability to resell Additional Notes in the secondary market.

***You may face foreign currency exchange risks or other tax consequences as a result of investing in the Additional Notes.***

The Additional Notes will be denominated and payable in Euro. If you are a U.S. investor, an investment in the Additional Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the euro relative to the U.S. dollar because of economic, political and other factors over which we have no control. Depreciation of the euro against the U.S. dollar could cause a decrease in the effective yield of the Additional Notes below their stated coupon rates and could result in a loss to you on a U.S. dollar basis. Investing in the Additional Notes by U.S. investors may have other significant tax consequences. See “*Certain Tax Consequences—Certain U.S. Federal Income Tax Considerations.*”

***The Takeda Temporary Notes will not be fungible with the Existing Senior Secured Notes prior to their exchange into Takeda Tap Notes.***

Prior to the consummation of the Takeda Acquisition and the concurrent exchange of the Takeda Temporary Notes into Takeda Tap Notes, the Takeda Temporary Notes will have separate ISINs and common codes than the ISINs and common codes in respect of the Existing Senior Secured Notes, and will not be fungible with the Existing Senior Secured Notes. Because of this, a market for trading in the Takeda Temporary Notes may not develop, or may not be liquid, which may impact the tradability and price of the Takeda Temporary Notes.

## **Risks Relating to Our Capital Structure**

***Our substantial leverage and debt service obligations could materially adversely affect our business, financial position and results of operations and preclude us from satisfying our obligations under the Senior Secured Notes and the Senior Secured Notes Guarantees.***

After completion of the Transactions, we will be highly leveraged and have significant debt service obligations. As of September 30, 2019, after giving pro forma effect to the Transactions, we would have had total financial indebtedness in the amount of €4,850.4 million, consisting of the Notes, the Senior Term Facilities and the STADA Existing Debt. We anticipate that our high leverage will continue to exist for the foreseeable future. See “*Capitalization,*” “*Description of Certain Financing Arrangements*” and “*Description of the Senior Secured Notes.*”

The degree to which we will be leveraged following completion of the Transactions could have important consequences to holders of the Additional Notes, including, but not limited to:

- making it more difficult for the Senior Secured Notes Issuer and its subsidiaries to satisfy their respective obligations with respect to the Notes, the Senior Secured Credit Facilities and other debt and liabilities we may incur;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, joint ventures, product research and development, or other general corporate purposes;
- restricting us from pursuing acquisitions or exploiting business opportunities;
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry in which we operate;
- negatively impacting credit terms with our suppliers and other creditors;
- increasing our exposure to interest rate increases because some of our indebtedness bears a floating rate of interest;
- placing us at a competitive disadvantage compared to our competitors that are not as highly leveraged; and
- limiting our ability to obtain additional financing to fund future operations, capital expenditures, business opportunities, acquisitions and other general corporate purposes and increasing the cost of any future borrowings.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our obligations, including under the Senior Secured Notes and the Senior Secured Credit Facilities.

***The Senior Secured Notes Issuer is a holding company that has no revenue generating operations of its own and will depend on cash from the operating companies of the STADA Group to be able to make payments on the Senior Secured Notes and the Senior Secured Notes Guarantees.***

The Senior Secured Notes Issuer is a holding company with no business operations other than management of the equity interests it holds in its subsidiaries. The Senior Secured Notes Issuer is dependent upon the cash flow from its operating subsidiaries in the form of dividends or other distributions or payments to meet its obligations, including its obligations under the Additional Notes and the Senior Secured Notes Guarantees thereof. Given the STADA Group's international operations, it has a large number of operating subsidiaries and business participations, which individually contribute to our Group's results. The amounts of dividends and distributions available to the Senior Secured Notes Issuer will depend on the profitability and cash flows of its subsidiaries (primarily including the STADA Group) and the ability of each of those subsidiaries to declare dividends under applicable law or transfer profits under profit and loss transfer agreements, if applicable. The Senior Secured Notes Issuer's subsidiaries, however, may not be able to, or may not be permitted under applicable law and/or profit and loss transfer agreements, if applicable, to, make distributions or advance upstream loans to the Senior Secured Notes Issuer to make payments in respect of their indebtedness, including the Senior Secured Notes and the Senior Secured Notes Guarantees.

Various agreements governing our debt may restrict and, in some cases may actually prohibit, the ability of these subsidiaries to move cash within their restricted group. In particular, the Senior Secured Credit Facilities and the Senior Secured Notes Indenture limit the ability to upstream cash to the Senior Secured Notes Issuer subject to certain exceptions. Applicable tax laws may also subject such payments to further taxation. Applicable law as well as profit and loss transfer agreements between several entities of the Group may also limit the amounts that some of our subsidiaries will be permitted to pay as dividends or distributions on their equity interests, or transfer as profits under a profit and loss transfer agreement, if applicable, or even prevent such payments. In particular, the ability of the Senior Secured Notes Issuer's subsidiaries to pay dividends to the Senior Secured Notes Issuer will generally be limited to the amount of distributable reserves available to each of them and the ability to pay its debt when due. The ability of the Senior Secured Notes Issuer's subsidiaries which are party to a profit and loss transfer agreement to



transfer profit to the Senior Secured Notes Issuer will generally be limited to the annual net profit as determined by law and the respective receiving party is obliged to balance the annual net loss, if any, of the transferring party. STADA is organized under German law which provides that dividends may only be distributed out of current profits and distributable reserves, and, generally, interim dividend distributions are not allowed under German law. Under the DPLTA STADA has undertaken to transfer its entire annual profit (*Gewinnabführung*) to German Holdco, and German Holdco is obliged to balance any annual net loss of STADA. The subsidiaries of the Senior Secured Notes Issuer that do not guarantee the Senior Secured Notes have no direct obligation to make payments with respect to the Senior Secured Notes or the Senior Secured Notes Guarantees.

While the Senior Secured Notes Indenture limits the ability of the Senior Secured Notes Issuer's subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments, these limitations are subject to significant qualifications and exceptions, including exceptions for restrictions imposed by applicable law.

***We may incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Additional Notes, and impair our ability to operate our businesses.***

Despite our substantial leverage, we may incur substantial additional debt in the future, including in connection with acquisitions. We have the ability to borrow up to at least €400 million under our Senior Secured Credit Facilities Agreement, which is secured by the Senior Secured Notes Collateral, and the Senior Secured Credit Facilities Agreement and the Indentures also permit the incurrence of additional debt thereunder. The Indentures and the Senior Secured Credit Facilities Agreement also permit us to incur a substantial amount of indebtedness at subsidiaries that do not guarantee the Additional Notes and to incur indebtedness that shares in the Senior Secured Notes Collateral or that benefits from security interests over assets that do not secure the Additional Notes. Any debt that our subsidiaries incur could be structurally or effectively senior to the Additional Notes to the extent that such subsidiaries do not guarantee the Additional Notes or secure the Additional Notes, and other debt could be secured or could mature prior to the Additional Notes. Although the Senior Secured Credit Facilities Agreement and the Indentures contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to the Senior Secured Notes Issuer's and its subsidiaries' existing debt levels, the related risks that we now face would increase. In addition, the Senior Secured Credit Facilities Agreement and the Indentures do not prevent us from incurring obligations that do not constitute indebtedness under those agreements. Our inability to service our debt could have a material adverse effect on our business, financial position, results of operations and our ability to fulfil our obligations under the Senior Secured Notes and the Senior Secured Notes Guarantees.

***Due to restrictions on the deductibility of interest expenses or forfeiture of interest carry-forwards under applicable law, we may be unable to fully deduct interest expenses on our financial liabilities.***

A certain amount of our annual financing expenses (primarily including interest payments) is not deductible under existing interest limitation rules, especially the German interest barrier rules (*Zinsschranke*) as further described below. Subject to certain requirements, the German interest barrier rules impose restrictions on the deductibility of interest expense for German tax purposes. The German interest barrier rules generally provide for a limitation on the deduction of net interest expenses in excess of 30% of tax-adjusted EBITDA. For purposes of the interest barrier rules, all entities that are part of the same fiscal unity (*Organschaft*) for corporate income and trade tax purposes are treated as one single business. Any nondeductible amount exceeding the threshold of 30% is carried forward and may be, again subject to the interest barrier rules, deductible in future financial years. Any interest carry-forward may be forfeited in part or in full in connection with certain measures, such as a change of the ownership structure. Furthermore, on June 20, 2016, the European Council adopted the Directive (EU) 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market. The Anti-Tax Avoidance Directive I (ATAD I) contains five legally-binding anti-abuse measures, which all member states have been required to apply against common forms of aggressive tax planning since January 1, 2017 onwards. Part of the package of measures is the implementation of an interest limitation in line with German rules. The restriction of the deductibility of interest expenses for tax purposes may have adverse consequences for our financial position and results of operations. The European Council has also



adopted Directive (EU) 2017/952 (ATAD II) targeted at mismatches which will need to be implemented by December 31, 2019. Further measures may follow as part of the OECD BEPS-Initiative.

In addition, certain of our German subsidiaries have considerable tax loss carry-forwards which have partially been capitalized as deferred tax assets in our Financial Statements. The use of such existing tax loss carry-forwards and ongoing losses for German corporate income and trade tax purposes may be forfeited in case of a direct or indirect transfer of shares, subject to certain limited exceptions. Such restriction, applying to both corporate income and trade tax, depends on the percentage of share capital or voting rights transferred within a five-year period to one acquirer or person(s) closely related to the acquirer or a group of acquirers with a common interest. Under current rules, if more than 50% of the share capital or voting rights are transferred to such an acquirer, tax loss carry-forwards and current losses will be forfeited in total. Currently, a proceeding is pending at the German Federal Constitutional Court (*Bundesverfassungsgericht*) whether forfeiture upon ownership changes of more than 50% are constitutional or not. To the extent that the utilization of tax losses is restricted, they cannot be set-off against future tax profits which would result in increased future tax burdens. Such restriction may require a write down of the deferred tax assets in our consolidated financial statements and would negatively affect our financial position and results of operations.

Furthermore, upon the creation of a fiscal unity for German corporate and trade tax purposes, any tax loss carry-forwards and interest carry-forwards for German corporate income and trade tax purposes of a subsidiary, which have been incurred before the creation of the fiscal unity, will be excluded from use for the duration of the fiscal unity.

***We are subject to restrictive covenants that limit our operating and financial flexibility.***

The Senior Secured Credit Facilities Agreement and the Indentures contain covenants which impose significant operating and financial restrictions on us. These agreements limit our ability to, among other things:

- incur or guarantee additional indebtedness or issue certain preferred stock;
- make certain restricted payments and investments;
- transfer or sell assets;
- enter into transactions with affiliates;
- create or incur certain liens;
- make certain loans, investments or acquisitions;
- issue or sell share capital of certain of our subsidiaries;
- create or incur restrictions on the ability of our subsidiaries to pay dividends or to make other payments to us;
- take certain actions that would impair the security interests in the Senior Secured Notes Collateral granted for the benefit of the holders of the Senior Secured Notes;
- merge, consolidate or transfer all or substantially all of our assets; and
- pay or redeem subordinated debt or equity.

All of these limitations are subject to significant exceptions and qualifications. See “*Description of the Senior Secured Notes—Certain Covenants.*” The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

In addition, the Senior Secured Credit Facilities Agreement requires us to comply with certain affirmative covenants while amounts under the Senior Secured Credit Facilities remain outstanding. Furthermore, under certain circumstances, the Revolving Credit Facility under the Senior Secured Credit Facilities Agreement requires us to comply with a financial ratio while amounts exceeding a certain threshold remain outstanding under the Revolving Credit Facility. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement.*” Our ability to meet the financial ratio under the Revolving Credit Facility may be affected by events beyond our control, and we cannot assure you that we will meet such financial ratio. A breach of any of the covenants or restrictions under the Senior Secured Credit Facilities Agreement, including our failure to comply with the financial ratio under the Revolving

Credit Facility, could result in an event of default under the Senior Secured Credit Facilities Agreement. Upon the occurrence of a payment event of default that is continuing under the Senior Secured Credit Facilities Agreement, subject to the applicable cure period, and upon the acceleration of indebtedness with respect to any other event of default by the creditors under our Senior Secured Credit Facilities Agreement, the relevant creditors could cancel the availability of the Senior Secured Credit Facilities and elect to declare all amounts outstanding under the Senior Secured Credit Facilities, together with accrued interest, immediately due and payable. In addition, a default under the Senior Secured Credit Facilities, including our failure to comply with the financial ratio under the Revolving Credit Facility, could lead to an event of default and acceleration under other debt instruments that contain cross-default or cross-acceleration provisions, including the Senior Secured Notes Indenture. If our creditors, including the creditors under the Senior Secured Credit Facilities, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries that would be due and payable and to make payments to enable us to repay the Senior Secured Notes. In addition, if we are unable to repay those amounts, our creditors could proceed against any collateral granted to them to secure repayment of those amounts.

***We will require a significant amount of cash to service our debt and sustain our operations, which we may not be able to generate or raise.***

Our ability to make principal or interest payments when due on our indebtedness, including the Tap Notes, and to fund our ongoing operations or expansion plans, will depend on our future performance and ability to generate cash, which, to a certain extent, is subject to the success of our business strategy as well as general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these “*Risk Factors*,” many of which are beyond our control.

We cannot assure you that our business will generate sufficient cash flows from operations, that currently anticipated growth, cost savings or efficiencies will be realized or that future debt financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Senior Secured Notes, or to fund our other liquidity needs including the repayment at maturity of the then-outstanding amount under the Senior Secured Credit Facilities. At the maturity of the Senior Secured Credit Facilities (including the Revolving Credit Facility, which matures one year before the Senior Secured Notes and two years before the Senior Secured Notes), the Tap Notes or any other debt that have incurred or may incur in the future, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, we may be required to refinance or restructure our indebtedness.

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Tap Notes, on or before maturity.

The type, timing and terms of any future financing, restructuring, asset sales or other capital raising transactions will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In such an event, we may not have sufficient assets to repay any portion or all of our debt.

Any failure to make payments on the Tap Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes, the Indentures and the Senior Secured Credit Facilities, will limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial position and results of operations. There can be no assurances that any assets that we could be required to dispose of could be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale would be acceptable. If we are unsuccessful in any of these efforts, we may not have sufficient cash to meet our obligations.

***Existing and future drawings under the Senior Secured Credit Facilities and any future variable interest rate debt we incur in the future bear interest at floating rates that could rise significantly, thereby increasing our costs and reducing our cash flow.***

A portion of our debt bears interest at a variable rate, and we are exposed to the risk of fluctuations in interest rates, primarily under the Senior Secured Credit Facilities, which are based on the Euro Interbank Offered Rate (EURIBOR) and the London Interbank Offered Rate (LIBOR) (in each case subject to a zero floor if less than zero) plus an applicable margin (based on a margin ratchet). These interest rates could rise significantly in the future, increasing our interest expense associated with these obligations, reducing cash flow available for capital expenditures and hindering our ability to make payments on the Tap Notes. Neither our Senior Secured Credit Facilities Agreement nor the Indentures contains a covenant requiring us to hedge all or any portion of our floating rate debt.

Although we may enter into and maintain certain hedging arrangements designed to fix a portion of these rates, there can be no assurance that hedging will continue to be available on commercially reasonable terms. Hedging itself carries certain risks, including that we may need to pay a significant amount (including costs) to terminate any hedging arrangements. To the extent interest rates were to rise significantly, our interest expense would correspondingly increase, thus reducing cash flow.

Following allegations of manipulation of LIBOR, a different measure of inter-bank lending rates, regulators and law enforcement agencies from a number of governments and the European Union are conducting investigations into whether the banks that contribute data in connection with the calculation of daily EURIBOR or the calculation of LIBOR may have been manipulating or attempting to manipulate EURIBOR and LIBOR. In addition, LIBOR, EURIBOR and other interest rates or other types of rates and indices which are deemed to be “benchmarks” are the subject of ongoing national and international regulatory reform, including the implementation of the IOSCO Principles for Financial Market Benchmarks (July 2013) and the new European regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, which entered into force on June 30, 2016. Following the implementation of any such reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “FCA Announcement”). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, changes in the manner of administration of any benchmark, or actions by regulators or law enforcement agencies could result in changes to the manner in which EURIBOR or LIBOR is determined, which could require an adjustment to the terms and conditions, or result in other consequences, in respect of any debt linked to such benchmark (including but not limited to the Senior Secured Credit Facilities whose interest rates are linked to LIBOR and EURIBOR). Any such change, as well as manipulative practices or the cessation thereof, may result in a sudden or prolonged increase in reported EURIBOR or LIBOR, which could have an adverse impact on our ability to service debt that bears interest at floating rates of interest. In addition, on November 29, 2017, the Bank of England and the FCA announced that the market working group on Sterling Risk-Free Rates would have an extended mandate to catalyze a broad transition to the Sterling Over Night Index Average Rate (“SONIA”) across sterling bond, loan and derivatives markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021. The Bank of England and FCA have stated that a key near-term priority for the working group will be to make recommendations relating to the potential development of SONIA reference rates. A public consultation was launched in July 2018 in relation to specific queries related to the operations of SONIA reference rates. On April 23, 2018, the Bank of England took over administration of SONIA and issued a series of reforms as part of its implementation as a replacement to LIBOR. From April 2018, the Bank of England has been setting the interest rate benchmark using SONIA, meaning that banks are no longer compelled by the FCA to submit LIBOR rates beyond 2021. These reforms and other pressures may cause such benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted.

***We may be subject to disputes, litigation and proceedings with past, present or future STADA shareholders.***

Prior to the consummation of the Takeover Offer, STADA did not have a controlling shareholder. We did not acquire all STADA Shares during the Takeover Offer or the Acquisition and have not conducted a so-called “squeeze out” of minority shareholders after the Takeover Offer or Acquisition. We face the risk of disputes, litigation and proceedings that involve past, present or future shareholders of STADA. Such disputes, litigation or proceedings may relate to actions taken by the STADA management or supervisory board prior to the Takeover Offer, actions taken or compensation paid in connection with the Takeover Offer, Acquisition or entry into the DPLTA or actions we take vis-à-vis minority shareholders now or in the future. For example, we are subject to ongoing appraisal proceedings (*Spruchverfahren*) brought by certain minority shareholders to challenge the adequacy of compensation payments under the DPLTA. In connection with any such disputes, litigation or proceedings, we may incur substantial legal costs whether or not we are successful. If we are unsuccessful, we may also be liable for damages or be required to increase compensation paid to such complainant past, present or future shareholders. The occurrence of any of the foregoing events if determined adversely to us may have a material adverse effect on our results of operations, financial condition and future prospects.

***The interests of the Sponsors may conflict with your interests as a holder of the Additional Notes.***

Bain Capital and Cinven Funds indirectly own the majority of the shares of the Senior Secured Notes Issuer. As a result, our shareholders have and will continue to have, directly or indirectly, the power to affect our legal and capital structure as well as the ability to elect and change our management and to approve other changes to our operations and to influence the outcome of matters requiring action by our shareholders. Our shareholders’ interests in certain circumstances may conflict with your interests as noteholders, particularly if we encounter financial difficulties or are unable to pay our debts when due. For example, the shareholders could vote to cause us to incur additional indebtedness. Our shareholders are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Our shareholders may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. In addition, our shareholders have held, hold or may hold interests in suppliers or customers of the STADA Group. Our shareholders and their affiliates could also have an interest in pursuing acquisitions, divestitures (including one or more divestitures of all or part of our business or sales of our shares which would result in changes to our shareholding structure), financings, dividend distributions or other transactions that, in their judgment, could enhance their equity investments, although such transactions might involve risks to you as a holder of Additional Notes.

## THE TRANSACTIONS

### The Transactions

#### *The Takeda Acquisition*

On November 4, 2019, we entered into the Takeda Acquisition Agreement with Takeda to acquire the Takeda CIS Assets in consideration for a purchase price of \$610.0 million (after giving effect to a purchase price reduction of \$50.0 million for working capital relating to the Takeda CIS Assets that is retained by Takeda), subject to a post-closing adjustment to the extent inventory levels diverge from a normalized level. We intend to finance the Takeda Acquisition with the proceeds from the Offering of the Takeda Temporary Notes together with borrowings under Facility E (if required). We currently expect the Takeda Acquisition to complete in the first quarter of 2020. The consummation of the Takeda Acquisition is subject to customary closing conditions. If these conditions are not satisfied on or prior to a certain longstop date, the Takeda Acquisition Agreement may be terminated. Should the Takeda Acquisition not be consummated, the Takeda Temporary Notes will be subject to a Special Mandatory Redemption. See “—*The Escrow Account*” below and “*Use of Proceeds*.”

We expect that the Takeda Acquisition will position us as the leading provider of OTC pharmaceuticals in Russia and further diversify our Branded Products portfolio through the addition of patent-protected prescription products, which we believe have significant growth potential. We believe that following our acquisition of the Takeda CIS Assets, we will move from being the third-largest to being the largest provider of OTC pharmaceuticals in Russia by sales. The Takeda CIS Assets include seven highly recognizable OTC brands (including Calcium, Magnyl, Probiotica, Vitrum, Xylometazoline (Xymelin), Zycomb and Artra). In addition, the Takeda CIS Assets include 14 highly recognizable brands of prescription medicines (Alogliptin, Amitriptylin, Azilsartanmedoxomil (Edarbi), Britomar, Bromhexin, Ebrantil, Eneas, Enanorm, Metronidazol, Myorix, Prednisolon, Trinomia, Warfarin and Xefo) in the cardiovascular, diabetes and general medicine categories. Two of these branded prescription products still benefit from patent-protections, which we expect to facilitate strong and resilient sales growth in the near term. As part of the Takeda Acquisition we will also acquire contracts with more than 500 point-of-sale representatives who will bolster our local expertise and sales network in the Russian and CIS markets.

For the twelve months ended June 30, 2019, a third-party due diligence report estimates that the Takeda CIS Assets generated EBITDA of approximately €55.6 million. In addition, based on such report, we expect that we will be able to implement a number of cost saving initiatives following the Takeda Acquisition Completion Date, which will create estimated run-rate synergies of approximately €7.6 million.

#### *The Escrow Account*

Pending the consummation of the Takeda Acquisition, the Initial Purchasers will deposit the gross proceeds from the Offering of Takeda Temporary Notes into the Escrow Account in the name of the Issuer. The Escrow Account will be controlled by the Escrow Agent and will be pledged on a first-ranking basis in favor of the Trustee on behalf of the holders of the Takeda Temporary Notes.

The release of the escrow proceeds from the Escrow Account is subject to the satisfaction of certain conditions (the “Escrow Release Conditions”), including that the funds required to pay the consideration for the Takeda Acquisition will be applied promptly (and in any event within two business days). See “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption*.” The occurrence of the Takeda Acquisition Completion Date is subject to customary closing actions. If the conditions to the release of the escrowed proceeds have not been satisfied on or prior to the Longstop Date, or upon the occurrence of certain other events, the Takeda Temporary Notes will be subject to a Special Mandatory Redemption. The Special Mandatory Redemption Price will be equal to 100% of the aggregate issue price of the Takeda Temporary Notes plus accrued and unpaid interest and additional amounts, if any, from the New Issue Date to, but excluding, the Special Mandatory Redemption Date. See “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption*” and “*Risk Factors—Risks Relating to the Transactions—If the conditions precedent to the release of proceeds from the Escrow Account are not satisfied, the Senior Secured Notes Issuer will be required to redeem the Takeda Temporary Notes, which means that you may not obtain the return you expect on the Takeda Temporary Notes*.”

#### *The Walmark Acquisition*

On November 3, 2019, we entered into the Walmark Acquisition Agreement with the Walmark Vendors to acquire all of the issued and outstanding share capital of Walmark a.s. (“Walmark” and, together with its



subsidiaries, the “Walmart Group”) for an aggregate enterprise value of approximately €137.0 million. We intend to finance the Walmart Acquisition with the proceeds from the Offering of the Walmart Tap Notes together with borrowings under Facility E (if required). We currently expect the Walmart Acquisition to complete in the first quarter of 2020. The consummation of the Walmart Acquisition is subject to certain conditions, including approval by the competent competition authorities in Bulgaria, Czech Republic, Hungary and Romania, and the performance of certain closing actions. If these conditions are not satisfied on or prior to a certain longstop date, the Walmart Acquisition Agreement will terminate and the proceeds from the Offering of the Walmart Tap Notes will be used for general corporate purposes.

Walmart is a leading OTC and food supplement provider in Central Europe and the largest independent Central Eastern European platform for OTC products by sales, with a direct presence in nine countries and exports to 39 countries. Walmart has established a strong presence in Central Europe, with a modern manufacturing facility in Trinec, Czech Republic of 3,300 square meters (currently utilizing only approximately 25% of its capacity) and supported by more than 260 sales representatives. Accordingly, we expect that the Walmart Acquisition will further diversify our manufacturing footprint in Europe and increase our scale to turn STADA into a strong competitor in the Central European OTC market.

For the twelve months ended May 31, 2019, we estimate based on information provided to us by the Walmart Vendor that the Walmart Group generated EBITDA of approximately €6.5 million. In addition, based on our estimates, we expect that we will be able to generate substantial cost savings and synergies as a result of the Walmart Acquisition.

## USE OF PROCEEDS

We estimate that the gross proceeds from the Offering of the Additional Notes will be approximately €        million. The gross proceeds from the Offering of the Takeda Temporary Notes will be deposited into an escrow account and, upon satisfaction of the Escrow Release Conditions, will be released from escrow to fund either a portion of the Takeda Acquisition as set forth below or the Special Mandatory Redemption. The Walmark Acquisition is currently expected to be consummated in the first quarter of 2020. If the Walmark Acquisition is not consummated, the proceeds of the Walmark Tap Notes will be used for the general corporate purposes of the Group. The estimated sources and uses necessary to consummate the Transactions are shown in the table below. Actual amounts will vary from estimated amounts depending on several factors, including differences from our estimates of fees and expenses. See “*The Transactions*” and “*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption.*”

<u>Sources of Funds</u>	<u>Amount</u>	<u>Uses of Funds</u>	<u>Amount</u>
<u>(in € million, unaudited)</u>			
Additional Notes offered hereby <sup>(1)</sup> . . . . .		Takeda Acquisition <sup>(3)</sup> . . . . .	594.5
Term Loan Facility E <sup>(2)</sup> . . . . .		Walmark Acquisition <sup>(4)</sup> . . . . .	137.0
		Transaction costs <sup>(5)</sup> . . . . .	17.0
		General corporate purposes . . . . .	11.5
<b>Total sources</b> . . . . .	<b><u>760.0</u></b>	<b>Total uses</b> . . . . .	<b><u>760.0</u></b>

- (1) The amount of gross proceeds includes pre-funded interest in the amount of €        million, which is deemed to have accrued on the Walmark Tap Notes and the Takeda Temporary Notes from September 30, 2019, to the New Issue Date. The aggregate principal amount of Additional Notes offered hereby will be apportioned to the Walmark Tap Notes and the Takeda Notes in proportion to the purchase prices for the Acquisitions.
- (2) In connection with the Transactions, we established Facility E pursuant to an additional facility notice under the Senior Secured Credit Facilities Agreement. We expect that Facility E will be drawn in full in connection with the Transactions. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement.*”
- (3) Represents the euro-equivalent of (i) the aggregate purchase price we expect to pay for the Takeda Assets, and (ii) an additional working capital investment. The purchase price for the Takeda Acquisition is subject to certain adjustments. On or about the date of this offering memorandum, we intend to enter into a currency forward contract to lock in the current EUR/USD foreign exchange rate for our purchase of \$610 million on or about the Takeda Acquisition Completion Date, which will be conditioned on the occurrence of the Takeda Acquisition Completion Date.
- (4) Represents the aggregate purchase price we expect to pay for the Walmark Acquisition. The purchase price for the Walmark Acquisition is subject to certain adjustments.
- (5) Represents estimated fees and expenses associated with the Transactions, including negative interest on escrowed proceeds and underwriting, financial advisory, legal, accounting, ratings advisory and other transaction costs and professional fees and original issue discount. Excludes value-added tax levied in connection with the Acquisitions, which is expected to be refunded. These fees and expenses have been estimated as of the date of this offering memorandum and are subject to change.

## CAPITALIZATION

The following table sets forth the consolidated cash and cash equivalents and the consolidated capitalization of the Senior Notes Issuer as of September 30, 2019, (i) on an actual basis and (ii) as adjusted to give effect to the completion of the Transactions, including the application of the proceeds therefrom as described in “*Use of Proceeds*” as if these events had occurred on September 30, 2019. The historical consolidated financial information of the Senior Notes Issuer has been derived from the Topco Interim Financial Statements, our accounting records and our internal management reporting systems. Unless stated otherwise, amounts of indebtedness presented below represent principal amounts excluding the impact of original issue discount and deferred debt issuance costs.

You should read this table in conjunction with “*Presentation of Financial Information*,” “*The Transactions*,” “*Use of Proceeds*,” “*Selected Consolidated Financial Information*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” “*Description of Certain Financing Arrangements*,” “*Description of the Temporary Notes*,” “*Description of the Senior Secured Notes*” and the Topco Financial Statements included elsewhere in this offering memorandum.

	Senior Notes Issuer	
	As of September 30, 2019	
(in € million, unaudited)	Actual	As Adjusted
<b>Cash and cash equivalents</b>	<b>205.8</b>	<b>217.3</b>
Senior Secured Credit Facilities:		
Senior Term Facilities (including Facility E) <sup>(1)</sup>	2,405.3	—
Revolving Credit Facility <sup>(2)</sup>	—	—
Senior Secured Notes:		
Existing Senior Secured Notes <sup>(3)</sup>	735.0	735.0
Additional Notes offered hereby	—	—
STADA Existing Debt <sup>(4)</sup>	360.1	360.1
<b>Total Senior Secured indebtedness</b>	<b>3,500.4</b>	<b>4,260.4</b>
Senior Notes <sup>(5)</sup>	590.0	590.0
<b>Total indebtedness</b>	<b>4,090.4</b>	<b>4,850.4</b>
Shareholders’ equity <sup>(6)</sup>	641.3	641.3
<b>Total capitalization</b>	<b>4,731.7</b>	<b>5,491.7</b>

- (1) Represents the aggregate principal amount drawn under the Senior Term Facilities, which includes euro-denominated and sterling-denominated drawings. The carrying amount of non-current obligations under the Senior Term Facilities as of September 30, 2019, was €1,645.7 million (including the impact of OID and deferred debt issuance costs). The amount in the as adjusted column includes €                      million of drawings under Facility E.
- (2) The Revolving Credit Facility is undrawn as of the date of this offering memorandum, and may be drawn to finance refundable value-added tax levied in connection with the Takeda Acquisition. We expect that any value-added tax will be refunded within six to twelve months. See “*Use of Proceeds*.”
- (3) Represents the aggregate principal amount of the Existing Senior Secured Notes. The carrying amount of non-current obligations under the Existing Senior Secured Notes as of September 30, 2019, was €725.7 million (including the impact of OID and deferred debt issuance costs).
- (4) Represents the aggregate principal amount of the STADA Existing Debt. The carrying amount of the STADA Existing Debt as of September 30, 2019 consists of (i) €266.5 million of non-current obligations under the 2022 Notes, (ii) €48.4 million of non-current obligations under various promissory notes (*Schuldscheindarlehen*), (iii) €4.0 million of current obligations under various promissory notes (*Schuldscheindarlehen*) and (iv) €40.2 million of bank loans. See “*Description of Certain Financing Arrangements*.”
- (5) Represents the aggregate principal amount of the Senior Notes. The carrying amount of non-current obligations under the Existing Senior Notes as of September 30, 2019, was €581.8 million (including the impact of OID and deferred debt issuance costs).
- (6) As of the date of this offering memorandum, the Sponsors have made equity contributions in the aggregate amount of €1.7 billion.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our selected consolidated financial information and have been derived from, and should be read in conjunction with, our Financial Statements, that have been prepared in accordance with IFRS and are included elsewhere herein and the sections entitled “Presentation of Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Summary—Summary Consolidated Financial and Other Information,” “Use of Proceeds” and “Capitalization.”

German Topco was organized in connection with the STADA Acquisition on April 18, 2017, and has consolidated STADA and its subsidiaries since August 22, 2017. No financial information of German Topco is available for the year ended December 31, 2016, and the financial information of German Topco for 2017 covers only the stub period from April 18, 2017, to December 31, 2017. As a result, we believe that the most meaningful way to discuss our Group’s selected consolidated financial information as of and for the nine months ended September 30, 2019 and 2018, and the years ended December 31, 2018, 2017 and 2016, is to present the Senior Notes Issuer’s selected consolidated financial information as of and for the nine months ended September 30, 2019 and 2018, and STADA’s selected consolidated financial information as of and for the years ended December 31, 2018, 2017 and 2016.

Results of operations for prior years or periods are not necessarily indicative of the results to be expected for the full year or any future period.

### Selected Consolidated Income Statement Information

(in € million)	STADA			Senior Notes Issuer		
	Year ended December 31,			Year ended	Nine months ended	
	2016	2017	2018	December 31, 2018	2018	2019
	(audited, except otherwise stated)			(audited, except otherwise stated)	(unaudited)	
Sales . . . . .	2,139.2	2,313.9	2,330.8	2,330.8	1,708.3	1,903.0
Cost of sales . . . . .	(1,105.3)	(1,178.0)	(1,139.5)	(1,408.2)	(1,053.0)	(1,025.9)
<b>Gross Profit . . . . .</b>	<b>1,033.9</b>	<b>1,135.9</b>	<b>1,191.3</b>	<b>922.6</b>	<b>655.2</b>	<b>877.1</b>
Selling expenses . . . . .	(488.3)	(514.5)	(538.6)	(538.6)	(383.1)	(426.2)
General and administrative expenses . . . . .	(182.7)	(199.7)	(183.7)	(200.7)	(136.1)	(164.7)
Research and development expenses . . . . .	(65.1)	(67.5)	(72.3)	(72.3)	(53.7)	(51.5)
Other income . . . . .	19.3	41.3	84.4	69.8	32.1	23.6
Other expenses . . . . .	(138.9)	(203.3)	(103.1)	(141.2)	(70.6)	(107.8)
<b>Operating profit . . . . .</b>	<b>178.1</b>	<b>192.3</b>	<b>378.1</b>	<b>39.6</b>	<b>43.7</b>	<b>150.5</b>
thereof: Depreciation of lease assets <sup>(1)(2)</sup> . . .	0.8	1.0	0.9	0.9	0.7	17.1
thereof: Rent expense <sup>(1)(2)</sup> . . . . .	32.4	32.2	34.6	34.6	25.3	8.4
Result from investments measured at equity . . .	0.7	2.3	3.7	3.7	3.7	(0.0)
Investment income . . . . .	0.0	(0.0)	0.0	0.0	—	—
Financial income . . . . .	2.7	3.6	5.6	17.8	16.6	7.3
Financial expenses . . . . .	(54.1)	(50.5)	(44.6)	(279.7)	(122.1)	(157.2)
thereof: Interest expense on leases <sup>(1)(2)</sup> . . .	0.3	0.4	0.5	0.5	0.3	2.5
<b>Financial result . . . . .</b>	<b>(50.7)</b>	<b>(44.5)</b>	<b>(35.2)</b>	<b>(258.1)</b>	<b>(101.8)</b>	<b>(149.9)</b>
<b>Earnings before taxes . . . . .</b>	<b>127.4</b>	<b>147.7</b>	<b>342.9</b>	<b>(218.6)</b>	<b>(58.0)</b>	<b>0.6</b>
Income taxes . . . . .	(31.9)	(53.0)	(32.3)	(15.8)	(20.2)	9.0
<b>Earnings after taxes . . . . .</b>	<b>95.5</b>	<b>94.8</b>	<b>310.5</b>	<b>(234.3)</b>	<b>(78.2)</b>	<b>9.7</b>
thereof: distributable to controlling shareholders (net income) . . . . .	85.9	85.3	306.9	(224.3)	(68.0)	1.4
thereof: distributable to non-controlling shareholders . . . . .	9.6	9.4	3.6	(10.1)	(10.2)	8.3

(1) Represents unaudited financial data for the periods presented.

(2) Our income statement information is presented in accordance with IAS 17 for all periods ended on or prior to December 31, 2018, whereas it is presented in accordance with IFRS 16 for all periods thereafter. To facilitate a comparison of our results of operations across periods and irrespective of the applicable lease accounting standard, we have provided an unaudited breakdown showing (i) our depreciation of finance lease assets, interest expense on finance leases and rent expense (including operating lease expense and other rent expenses not affected by lease accounting) and, respectively, (ii) our depreciation of right-of-use assets, interest expense on lease liabilities and rent expense (including rent expense exempt from or not affected by lease accounting).

## Selected Consolidated Balance Sheet Information

(in € million)	STADA			Senior Notes Issuer	
	As of December 31,			As of	As of
	2016	2017	2018	December 31, 2018	September 30, 2019
	(audited, except otherwise stated)			(audited, except otherwise stated)	(unaudited)
Intangible assets	1,582.4	1,474.3	1,707.2	4,890.3	4,640.6
Property, plant and equipment	322.7	332.7	351.5	444.8	518.0
Financial assets	2.2	2.0	2.3	2.3	6.1
Investments measured at equity	13.9	41.5	24.6	24.6	1.9
Other financial assets	4.5	1.1	0.8	1.2	1.5
Other assets	3.1	1.3	1.2	1.2	1.2
Deferred tax assets	20.8	27.6	26.3	34.8	39.1
<b>Non-current assets</b>	<b>1,949.5</b>	<b>1,880.6</b>	<b>2,113.8</b>	<b>5,399.0</b>	<b>5,208.5</b>
Inventories	484.9	499.0	515.3	515.3	600.6
Trade accounts receivable	489.1	520.4	516.0	516.0	541.3
Return assets	—	—	0.6	0.6	0.3
Income tax receivables	12.8	14.3	8.5	18.1	27.7
Other financial assets	39.9	9.8	12.8	12.8	14.0
Other assets	28.7	35.3	49.2	51.7	52.6
Cash and cash equivalents	352.6	243.2	343.8	360.1	205.8
Non-current assets and disposal groups held for sale	83.0	1.8	0.1	0.1	244.6
<b>Current assets</b>	<b>1,490.9</b>	<b>1,324.0</b>	<b>1,446.3</b>	<b>1,474.6</b>	<b>1,686.9</b>
<b>Total assets</b>	<b>3,440.4</b>	<b>3,204.5</b>	<b>3,560.1</b>	<b>6,873.6</b>	<b>6,895.4</b>
Share capital	162.1	162.1	162.1	0.0	0.0
Capital reserve	514.2	514.2	514.2	1,044.8	1,044.8
Retained earnings including net income	673.3	717.4	858.6	(417.1)	(423.4)
Other reserves	(379.1)	(430.0)	(475.9)	(50.8)	19.8
Treasury shares	(1.4)	(1.4)	(1.4)	—	—
<b>Equity attributable to shareholders of the parent</b>	<b>969.0</b>	<b>962.2</b>	<b>1,057.6</b>	<b>577.0</b>	<b>641.3</b>
Shares relating to non-controlling shareholders	78.1	44.2	120.4	120.4	112.9
<b>Equity</b>	<b>1,047.1</b>	<b>1,006.4</b>	<b>1,178.0</b>	<b>697.4</b>	<b>754.2</b>
Other non-current provisions	36.0	35.3	33.5	33.5	42.8
Financial liabilities	1,336.4	0.8	978.4	3,956.1	4,234.3
Other financial liabilities <sup>(1)</sup>	3.9	4.0	4.2	7.8	40.0
thereof: Finance leases (IAS 17) <sup>(2)</sup>	1.8	2.1	2.6	2.6	—
thereof: Lease liabilities (IFRS 16) <sup>(2)</sup>	—	—	—	—	32.3
Other liabilities	1.0	1.0	2.5	2.5	2.4
Deferred tax liabilities	116.4	116.5	83.9	971.5	914.2
<b>Non-current borrowed capital</b>	<b>1,493.7</b>	<b>157.6</b>	<b>1,102.4</b>	<b>4,971.4</b>	<b>5,233.7</b>
Other provisions	20.3	23.5	22.5	22.5	17.8
Financial liabilities	134.3	1,257.1	444.9	467.9	63.9
Trade accounts payable	336.8	340.6	315.1	320.6	347.4
Contract liabilities	—	—	1.5	1.5	1.0
Income tax liabilities	60.6	69.7	79.7	88.4	92.7
Other financial liabilities <sup>(1)</sup>	214.0	226.1	288.7	173.5	200.7
thereof: Finance leases (IAS 17)	1.5	1.3	1.4	1.4	—
thereof: Lease liabilities (IFRS 16) <sup>(2)</sup>	—	—	—	—	19.0
Other liabilities	118.9	123.5	127.2	130.4	141.5
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	14.6	—	—	—	42.4
<b>Current borrowed capital</b>	<b>899.6</b>	<b>2,040.5</b>	<b>1,279.7</b>	<b>1,204.8</b>	<b>907.4</b>
<b>Total equity and liabilities</b>	<b>3,440.4</b>	<b>3,204.5</b>	<b>3,560.1</b>	<b>6,873.6</b>	<b>6,895.4</b>

(1) Our balance sheet information is presented in accordance with IAS 17 as of all dates falling on or prior to December 31, 2018, whereas it is presented in accordance with IFRS 16 as of all dates thereafter. For all periods presented, we have recognized lease liabilities, if any, under current and non-current other financial liabilities. To facilitate a comparison of our other financial liabilities across periods and irrespective of the applicable lease accounting standard, we have provided an unaudited breakdown showing (i) our lease liabilities under finance leases in accordance with IAS 17 and (ii) our lease liabilities in accordance with IFRS 16, respectively.

(2) Represents unaudited financial data for the periods presented.



## Selected Consolidated Cash Flow Statement Information

(in € million)	STADA			Senior Notes Issuer		
	Year ended December 31,			Year ended December 31,	Nine months ended September 30,	
	2016 <sup>(1)</sup>	2017	2018	2018	2018	2019
	(audited)			(audited)	(unaudited)	
Cash flow from operating activities . . . . .	333.5	262.9	320.3	284.4	196.4	224.1
Cash flow from investing activities . . . . .	(171.8)	(122.6)	(300.3)	(300.3)	(252.8)	(188.6)
Cash flow from financing activities . . . . .	54.3	(227.8)	79.7	(98.5)	35.7	(186.8)
<b>Changes in cash and cash equivalents . . . . .</b>	<b>216.1</b>	<b>(87.6)</b>	<b>99.7</b>	<b>(114.4)</b>	<b>(20.8)</b>	<b>(151.3)</b>
Balance at beginning of the period . . . . .	143.2	352.6	243.2	474.0	474.0	360.1
Changes in cash and cash equivalents due to the scope of consolidation . . . . .	(3.4)	(12.9)	(0.0)	(0.0)	0.2	(4.3)
Changes in cash and cash equivalents due to exchange rates . . . . .	(3.3)	(8.9)	0.9	0.6	(0.3)	1.3
<b>Balance at end of the period . . . . .</b>	<b>352.6</b>	<b>243.2</b>	<b>343.8</b>	<b>360.1</b>	<b>453.1</b>	<b>205.8</b>

- (1) Due to a change in the presentation of cash outflows for finance leases the information on investing and financing cash flows for the year ended December 31, 2016, has been derived from the comparative information in the STADA Financial Statements as of and for the year ended December 31, 2017, as opposed to the STADA Financial Statements as of and for the year ended December 31, 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The discussion and analysis below provides information that we believe is relevant to an assessment and understanding of our historical consolidated financial position and results of operations. You should read this discussion in conjunction with our Financial Statements included elsewhere herein and the sections entitled "Presentation of Financial Information" and "Selected Consolidated Financial Information." For purposes of this section, "we," "our," "us" and other similar terms refer to the Senior Notes Issuer and its subsidiaries, when discussing our results of operations for the nine months ended September 30, 2019 and 2018, and the twelve months ended September 30, 2019, and to STADA and its subsidiaries, when discussing our results of operations for the years ended December 31, 2018, 2017 and 2016.*

*This section includes forward-looking statements, including those concerning future sales, costs, capital expenditures, acquisitions and financial condition. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Results of operations for prior years are not necessarily indicative of the results to be expected for the full year or any future period. See "Forward-Looking Statements" and "Risk Factors."*

*The following discussion of our results of operations also makes reference to certain Non-GAAP Measures, including EBITDA, Management Adjusted EBITDA, Pro Forma Adjusted EBITDA, adjusted sales and adjusted net income. Prospective investors should bear in mind that these Non-GAAP Measures are not financial measures defined in accordance with IFRS, may not be comparable to other similarly titled measures of other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. See "Presentation of Financial Information—Non-GAAP Financial Measures."*

### Overview

We are a leading international healthcare and pharmaceuticals company focused on branded and unbranded generics, with a successful track record spanning over 120 years. With more than 17,000 SKUs covering a large number of therapeutic areas, we develop, manufacture and market a diversified product portfolio that includes many category leaders. We distribute our products in approximately 120 countries and have a direct presence in all major European markets, as well as in growth markets in the MENA region, Asia, South America and Australia.

We are the fifth largest generics company by sales and we ranked ninth among OTC companies in Europe as of December 31, 2018. Our market-leading positions provide us with a competitive advantage, which is bolstered by our scale, brands, reputation and the breadth of our product portfolio, as well as our local market expertise and established distribution channels built on strong relationships with wholesalers and pharmacies. We continually work to optimize and manage our costs, including through our cost-effective manufacturing footprint comprising 18 facilities across Europe, Asia and South America. Building on our tried and tested platform, we have released on average more than 600 new products each year since 2014. Our solid pipeline of new products provides us with further opportunities as our markets grow. We have a strong track record of growth, both organically and through focused acquisitions, and seek to grow our business and further improve our profitability by internationalizing successful products. In the twelve months ended September 30, 2019, we generated sales of €2,525.5 million and Pro Forma Adjusted EBITDA of €821.3 million.

The products we sell are classified according to two divisions: Generics and Branded Products.

*Generics:* Within our Generics division, we sell unbranded generics products, offering a lower cost alternative to the substantially more expensive pharmaceutical-originator products. Most of the products in our Generics division require a prescription for purchase and are only available from pharmacies and hospitals. The market for prescription products is generally characterized by regulated pricing, with competition driven by the reliability of supply and cost competitiveness. Patent expirations of originator drugs feed our product pipeline in the Generics division, allowing us to leverage our distribution channels and local market knowledge to launch new generics products. The product portfolio in our Generics division is diversified, with the top ten products accounting for only 17% of sales in our Generics division for the twelve months ended September 30, 2019. The top-ten selling products (and their respective therapeutic areas) in our Generics division for the twelve months ended September 30, 2019, were: Epoetin zeta (anemia), Tilidine/Naloxone (pain), Atorvastatin (cholesterol), Omeprazole (gastric ulcers/

reflux), Pantoprazole (gastric ulcers/reflux), Diclofenac (pain, anti-inflammatory), Paracetamol (pain), Bisoprolol (high blood pressure), Fentanyl (Pain) and Enalapril (high blood pressure). The largest countries by sales in our Generics division for the twelve months ended September 30, 2019, were: Germany, Italy, Belgium, Spain, Serbia, Russia, France and Switzerland. We generated sales of €1,492.9 million and Management Adjusted EBITDA of €413.4 million in our Generics division for the twelve months ended September 30, 2019.

**Branded Products:** Our Branded Products division primarily includes branded OTC products, which are typically available without a prescription, such as sunscreens, cough and cold medicines, DNA tests, cosmetics, glucose meters and a small range of branded prescription generics. Our best-known brands include Ladival (sunscreens), Grippostad and Covonia (cough and cold) and APO-go (Parkinson's disease). The market for products in our Branded Products division is generally characterized by market-driven pricing, with brand strength, marketing strategy and customer loyalty being important factors for success. Our portfolio of Branded Products is diversified, with the top ten products accounting for only 34% of sales in our Branded Products division for the twelve months ended September 30, 2019. The top-ten selling brands (and their respective therapeutic areas, prescription requirements and markets in which they are sold) in our Branded Products division for the twelve months ended September 30, 2019, were: APO-go (Parkinson's disease, prescription required, available in 28 countries), Bortezomib (anti-cancer medication, prescription required multiple myeloma), Zoflora (household disinfection), Grippostad (colds, OTC, available in 28 countries), Aqualor (rhinitis, sore throats, available in 18 countries), Snup (rhinitis), Vitaprost (prostate diseases), Nizoral (anti-dandruff shampoo), Hirudoid (anti-coagulant) and Ladival (sun lotion). The largest countries by sales in our Branded Products division for the twelve months ended September 30, 2019, were: Germany, the United Kingdom, Russia, the United States and Italy. We generated sales of €1,032.7 million and Management Adjusted EBITDA of €281.8 million in our Branded Products division for the twelve months ended September 30, 2019.

### **Operating Divisions**

We report our results of operations in two divisions, Generics and Branded Products, which accounted for 59% and 41%, respectively, of our consolidated sales in the twelve months ended September 30, 2019. Our divisions transact business with each other in the ordinary course of their operations. In accordance with transfer pricing rules, services between our divisions are charged at market prices.

Products are assigned to each of our divisions on the basis of our marketing strategy. Marketing of generics is generally price-driven, where we are dependent on reimbursements, and high product quality is a necessary consequence of the stringent standards set by regulators. Where we determine that we are competing in such an environment, and therefore mainly compete on the basis of price and our efficient cost structure, we classify products into the Generics business. This mostly applies to prescription products that are most heavily regulated and generally reimbursable. Where we are free to set the price of our products, we classify them into the Branded Products division. This mostly applies to nonprescription products that do not depend on reimbursements, but also to those of our prescription products that have an established, highly recognizable brand and significant customer loyalty or low levels of competition. Our OTC products and medical devices are globally assigned to the Branded Products division. Due to factors such as differences in prevailing regulation and reimbursement regimes, brand recognition and competition, the classification of our products may differ between countries. It may also vary over time due to regulatory dynamics, with regulators redesignating prescription products as nonprescription products or discontinuing the reimbursement of prescription products. Redesignations are only effective for future periods and never apply retroactively.

### **Geographic Areas**

For the years ended December 31, 2016 and 2017, we reported our results of operations by country at the level of each division, reporting the eight largest countries in terms of sales in the Generics division and the five largest markets in the Branded Products division. Beginning with our consolidated financial statements as of and for the year ended December 31, 2018, we have discontinued reporting our results of operations by country, and we do not intend to report such financial information going forward.

### **Key Factors Affecting Our Results of Operations and Financial Condition**

Factors affecting our results of operations and financial condition include the factors described below.

## ***Regulation***

Our industry is extensively regulated by a number of international and local regulatory authorities to ensure that pharmaceutical products are effective and safe for use. Regulatory provisions typically require us to obtain marketing authorizations before we are permitted to introduce new products into a market, which drives our development costs. Other regulatory provisions establish high standards for the quality of our products, services, raw materials, manufacturing and working conditions, which influence our cost of sales, selling expenses, and general and administrative expenses.

In addition, regulation significantly affects our pricing of products and profitability. In certain markets, such as Germany, the United Kingdom, France and Serbia, the costs of prescription products are generally eligible for reimbursement by third-party payors, such as government health programs. However, regulators set a reference price for each pharmaceutical ingredient or substance group, which is a price limit that caps the amount government health programs will reimburse. Pricing regulation generally benefits generics companies such as us compared to manufacturers of branded originator products. However, regulators may decrease their reference prices from time to time.

Tenders are another cost containment measure, primarily being employed by public institutions with governments looking to source pharmaceuticals at the lowest price. Germany has a well-established public tendering system that covers the majority of generic sales, in which we have operated successfully during the periods under discussion. Similar tender systems are operated in the Netherlands and Spain. In Italy, the United Kingdom and Vietnam, tenders are used for procurement by public institutions such as hospitals.

Cost containment measures by regulators and governments may also result in the redesignation of prescription products as OTC products or the discontinuation of reimbursement for prescription products. We believe that these measures play to our strengths, as end-consumers in need of pharmaceuticals that are no longer reimbursable are more likely to prefer inexpensive generics such as our products over costlier originator products. Similarly, a reclassification of a prescription product into an OTC product means that price regulations no longer apply, thereby creating opportunities for us to leverage our brand recognition to charge premium prices.

## ***Volume Growth***

We operate in a growing industry, which we believe influenced our sales during the periods under discussion and represents a long-term trend. According to IQVIA, sales in the global generics market (top 50 countries) decreased from €168.3 billion in 2016 to €167.5 billion in 2017 and increased to €171.7 billion in 2018, and are expected to grow at a CAGR of 5% from 2019 to 2023. Based on IQVIA data, the major European generics markets (Germany, the United Kingdom, France, Spain and Italy) are expected to grow at a CAGR of 2.8% from 2019 to 2023.

We believe growth in the global pharmaceuticals market is being driven by long-term trends such as population growth, aging societies, the increased incidence of chronic disease, advances in medical therapies, increasing self-medication and health awareness. Growth in the global generics market was additionally driven by increasing generics penetration in the global pharmaceuticals markets, due to cost containment regulations incentivizing the use of generics to counteract the increasing cost pressure facing government-sponsored health programs and recognizing that generics provide a high quality and lower cost alternative to originator products. Another key driver behind increasing generics penetration is a wave of patent expirations.

In the generics space, we expect biosimilars to play an increasingly important role in the future, as they can contribute significantly to cost control in national healthcare markets. In 2018, in Germany the value of biologics losing patent protection exceeded that of small-molecule pharmaceuticals losing patent protection. It is estimated that twelve of the best-selling biologics in terms of revenue will have lost their patents by 2020.

We also expect regulators to continue the trend of reclassifying prescriptions into OTC therapies, thereby stimulating growth in the self-payment and self-care markets. According to IQVIA, the global OTC market is projected to grow at a CAGR of 5% from 2019 to 2023.

### ***Economic Conditions***

We operate in the pharmaceuticals sector of the global healthcare industry, which is generally regarded as a noncyclical industry. Noncyclical industries are characterized by a low correlation between the demand for their products, which are typically nondiscretionary in nature, and fluctuations in general economic conditions.

We believe that sales in our Generics division, which mostly comprises nondiscretionary prescription products, are relatively independent of the economic conditions in our markets. As prices are mostly regulated, frequently reimbursable by government or other health systems and with sales partly driven by chronic diseases, volume demand in the Generics division is relatively stable throughout the economic cycle. However, the state of a local economy may encourage governments to initiate cost containment measures. Such measures may be favorable for us if they accelerate the transition from originator products to generics or generics to branded OTC products, but they may be unfavorable if they lead to lower reference prices. For example, in the year ended December 31, 2018, 85% of our sales in Spain, 87% of our sales in Belgium, 93% of our sales in France and 80% of our sales in Serbia derived from the sale of Generics.

The state of the economy, however, impacts our results of operations in our Branded Products division, which mostly comprises self-pay OTC products. The lack of reimbursement means that sales of OTC products partly depend on consumers' disposable income and general financial situation. A significant portion of our Branded Products is nondiscretionary, such as pain relievers, cough and cold medicines, sunscreens and diagnostics. However, some of our Branded Products are lifestyle driven and discretionary in nature, such as cosmetics and vitamin supplements. Demand for these products is more susceptible to fluctuations in the overall economy. Examples of countries in which Branded Products accounted for a significant portion of our sales in 2018 include Germany, Russia, the United Kingdom and the United States.

### ***Foreign Currency Exchange Rates***

Due to our international business operations, we are subject to both foreign exchange transaction and translation risk.

Transactional risk arises when we and our subsidiaries execute transactions in a currency other than our respective functional currency. We currently operate 18 manufacturing facilities in ten countries, and sell our products in approximately 120 countries. As a result, a significant portion of our sales and expenses are denominated in non-euro currencies. Where we are unable to match sales received in a foreign currency with expenses paid in the same currency, our results of operations are affected by currency exchange rate fluctuations. We believe that we are generally able to match sales with expenses incurred in the same currency, such that part of our foreign exchange transaction risk is naturally hedged. We also use derivatives such as currency futures and swaps to mitigate foreign exchange risk.

We present our Financial Statements in euro. As a result, in the preparation of our Financial Statements we must translate assets, liabilities, income and expenses of all our operations with a functional currency other than the euro into euro. Consequently, fluctuations in the applicable foreign currency exchange rates may increase or decrease the euro value of our non-euro assets, liabilities, income and expenses, even if their value has not changed in their local functional currency. Our principal exposure to translation effects relates to the Russian ruble, British pound sterling and Serbian dinar.

### ***Acquisitions and Disposals***

Selective bolt-on acquisitions are part of our strategy, and we continually evaluate acquisition opportunities. We seek to leverage acquisitions to unlock internal potential for organic growth, meaning that we typically acquire either companies that we can use as a platform for our expansion into new geographic markets or product portfolios that we can roll out in our numerous existing markets. Our focus in terms of acquisitions is on markets that have high growth potential and on Branded Products, as this division is characterized by a lower degree of regulation than Generics. Although we have completed several acquisitions and disposals during the periods under discussion, no individual acquisition or disposition materially affected the comparability of our results of operations. In particular, we are considering acquisition opportunities in Eastern Europe, which would include well-known branded prescription and consumer healthcare products in the area and increase our manufacturing capabilities. In the third quarter of 2019, we began a sale process to explore our options for a potential disposition of one



of our British subsidiaries, which generated EBITDA of €39 million for the twelve months ended September 30, 2019. In accordance with the applicable requirements under IFRS, we have recognized the relevant operations as “held for sale” in our interim financial statements as of and for the nine months ended September 30, 2019. We are soliciting offers from interested parties as of the date of this offering memorandum and have not yet signed a definitive sale agreement or a letter of intent with respect to the potential disposition, and such disposition may not occur. We will abandon the disposition if the financial and other terms of the potential offers are not satisfactory to us. The use of the proceeds from any such sale, if any, have not been conclusively determined.

### ***Strategic Initiatives and Restructuring Expenses***

Our results of operations are affected by special items and, in particular, costs of strategic initiatives and restructuring expenses. We continue to review our business processes with the aim of increasing automation, centralization and harmonization across our international operations. The centralization of our management structure in 2016 was designed to improve our portfolio strategy and facilitate the further internationalization of our Branded Products.

### ***Seasonality***

To a certain degree, our results of operations are affected by seasonality. For example, the results of our Branded Products division typically fluctuate in line with the severity and timing of the cough and cold season, which drives sales of our cold medicines such as Grippostad, Covonia, Aqualor, Snup and antibiotics in the fourth and first quarter of each year. In a similar vein, the summer weather in the second and third quarters influences our sales of sunscreen products such as Ladival. Our marketing expenses are subject to the same seasonal drivers.

### ***New Product Launches***

Our sales are impacted by the number of product launches in each year. Particularly in our large and mature markets product launches can be a key driver behind sales growth, as was the case especially in Germany and Spain during the periods under discussion. Most of our product launches relate to new Generics. Because Generics are not usually broadly advertised, these product launches have no material impact on our marketing expenses. In our Branded Products division, however, our marketing expenses correlate with the number of product launches, as the introduction of a new product is typically accompanied by extensive marketing campaigns. When we launched our successful and fast growing sleep aid Hoggar Night, for example, we incurred significant marketing expenses for a TV advertising campaign.

We launched 650, 670 and 665 products in the years 2018, 2017 and 2016, respectively. For example, recent product launches include Bortezomib (used for the treatment of multiple myeloma), Movymia (used for the treatment of osteoporosis) and Dasatinib (anticancer medicine). The number of marketable products that we are able to launch in any year is partly driven by regulation and the availability of new products and is thus partly outside our control.

## **Factors Affecting Comparability of Our Financial Statements**

### ***Changes to Accounting Standards—IFRS 16***

On January 13, 2016, the IASB published IFRS 16, and the European Union adopted IFRS 16 on November 9, 2017. We have adopted IFRS 16 from January 1, 2019. On adoption of IFRS 16, we have recognized lease liabilities in relation to leases that had previously been classified as “operating leases” under the principles of IAS 17. We recognized a right-of-use asset representing our right to use the underlying asset and a lease liability representing our obligation to make lease payments. We elected to apply the modified retrospective approach on transition to IFRS 16 and the cumulative effect of initially applying the standard was recognized at the date of initial application, being January 1, 2019. As of December 31, 2018, some of our facilities were leased and we also have vehicle leases and a number of lease arrangements with office and equipment suppliers. The adoption of IFRS 16 has impacted the following balance sheet line items as of January 1, 2019, compared to December 31, 2018:

- intangible assets increased by €7.1 million;
- property, plant and equipment increased by €51.9 million;
- other non-current financial liabilities increased by €38.9 million; and

- other current financial liabilities increased by €20.1 million.

As a consequence of adopting IFRS 16, our EBITDA has been slightly positively impacted as rental expense has been replaced with depreciation of our right-of-use assets and notional financing charges on future lease liabilities. As a result, figures as of and for the nine months ended September 30, 2019 may not be comparable to the results presented as of and for the nine months ended September 30, 2018 and as of and for the years ended December 31, 2018, 2017 and 2016.

### ***Change in Reporting Entity***

The Indentures currently require that we report to the holders of Notes the consolidated results of either STADA, the Issuers or one of the parent entities of the Issuers. We have elected to report our consolidated financial condition and results of operations on an ongoing basis at the level of German Topco, a parent entity of the Issuers. However, the notes to German Topco's consolidated financial statements include reconciliation columns to the consolidated financial statements of each of the Senior Notes Issuer and the Senior Secured Notes Issuer, which illustrate the differences in the financial conditions and results of operations of German Topco, the Senior Notes Issuer and the Senior Secured Notes Issuer. Although German Topco has consolidated STADA and its subsidiaries since August 22, 2017, the comparability of the STADA Financial Statements and the Topco Financial Statements (including the reconciliation to the Senior Notes Issuer's consolidated financial information contained therein) may be limited. For example, certain consultancy costs related to the STADA Acquisition were incurred by German Topco and the Issuers and only a portion of the debt incurred by the Issuers under the Senior Facilities Agreement in connection with the STADA Acquisition was on-lent to STADA to refinance a portion of its STADA Existing Debt. As a result, there may be material differences in the respective amount of liabilities, financial results, income taxes and earnings.

### **Explanation of Key Income Statement Line Items**

Set forth below is a description of the key line items presented in our Financial Statements. Our key line items are reported on the basis of uniform accounting policies that are implemented at each entity within our scope of consolidation.

#### ***Sales***

Sales are recognized when goods have been delivered or services rendered, provided that it is probable that measurable economic benefits will flow to the entity and that control has been transferred to the buyer. It must also be possible to reliably measure the company's own costs incurred or to be incurred. Sales are recognized before taxes and after deduction of revenue reductions (rebates or discounts) at fair value of the consideration received or receivable. Expenses due to provisions for warranties are deducted from sales on the basis of estimates that are based on past experience expressed as a percentage of sales. Discounts granted to health insurance systems are recognized as a reduction of sales, based on the relevant contract. Income and expenses from the same transactions are generally recorded in the same period. Expenses related to accruals for future revenue reductions are thus recorded in the period in which the sales are realized. With effect as of January 1, 2018, we have adopted a new standard for revenue recognition in accordance with IFRS 15 (*Revenue from Contracts with Customers*). See note 3 to the STADA Financial Statements as of and for the year ended December 31, 2018.

#### ***Cost of Sales***

Cost of sales includes the costs of raw material inputs and their conversion into marketable products, including directly associated personnel expenses, as well as depreciation charges related to the relevant production equipment. In addition, cost of sales includes valuation allowances for excess or obsolete inventories and the purchase price of commercial goods sold or provided free of charge. Cost of sales also includes amortization charges against intangible assets recognized in connection with drug approvals and trademark rights. Cost of sales is recognized in the same period in which the associated income is realized.

#### ***Selling Expenses***

In addition to the costs for sales departments and sales forces, selling expenses also comprises the costs for advertising and marketing activities, including samples for doctors. Selling expenses also includes all costs for the distribution of our products. Discounts in the form of free retail packages, which are referred to as discounts in kind, are not included in selling expenses but in net sales.

### ***General and Administrative Expenses***

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

### ***Research and Development Expenses***

Research expenses are costs that are incurred in relation to research activity aimed at new scientific or technical findings. We do not engage in material proprietary research for new active pharmaceutical ingredients, and our product portfolio is focused on products that do not require proprietary research. As a result, we typically do not incur material research expenses.

Development costs are costs that result from the technical implementation of theoretical discoveries in production and production processes and facilitate their commercial implementation. As a rule, it is the objective of our drug development process to obtain national or multinational marketing authorizations for our products, to capitalize all development costs incurred in relation to these authorizations and recognize them as intangible assets. As described under “—Cost of Sales,” we then amortize these intangible assets as part of cost of sales. Whenever development costs do not satisfy the requirements for capitalization, we expense them in the periods in which they are incurred and report them under the line item development costs. Costs related to the development of new products are usually capitalized, whereas costs for technical and regulatory maintenance or the optimization of existing products are usually expensed as development costs.

Development costs must satisfy the following criteria in order to be capitalized: (i) it is technically possible for the relevant product to become marketable or otherwise available for use in our business in the future (which generally equates to the grant of a marketing authorization); (ii) we have the intention and ability, as well as the necessary resources, to achieve the marketability or utility of the relevant product; (iii) it is probable that the future economic benefits accruing from the intangible asset will flow to the Group; and (iv) the cost of the intangible asset can be measured reliably.

### ***Other Income***

Other income primarily includes reversals of impairment losses and other write-ups on non-current assets (excluding goodwill), income from asset disposals, income from insurance compensation and income from indemnification payments as well as remaining other income not directly associated with functional costs.

### ***Other Expenses***

Other expenses primarily includes bad debt expenses, currency translation expenses, impairment losses on non-current assets and certain taxes that cannot be meaningfully attributed to our sales, administration or research and development functions.

### ***Financial Result***

Financial result is the net of financial income and financial expenses. Financial income primarily includes interest income, distributions received from investments accounted for using the equity method and income from the measurement of financial instruments. Financial expenses are mainly composed of interest expense and expenses from the measurement of derivative financial instruments.

### ***Income Taxes***

The item income taxes includes taxes on income and earnings paid or owed in the individual countries as well as deferred taxes. Other taxes that cannot be meaningfully attributed to our sales, administration or research and development functions are included in other expenses.

### ***Results of Operations***

German Topco was organized in connection with the STADA Acquisition on April 18, 2017, and has consolidated STADA and its subsidiaries since August 22, 2017. No financial information of German Topco is available for the year ended December 31, 2016, and the financial information of German Topco for 2017 covers only the stub period from April 18, 2017 to December 31, 2017. As a result, we believe that the most meaningful way to discuss our Group’s selected consolidated financial information as of and for the nine months ended September 30, 2019 and 2018, and the years ended December 31, 2018, 2017 and 2016,

is to present the Senior Notes Issuer's selected consolidated financial information as of and for the nine months ended September 30, 2019 and 2018, and STADA's selected consolidated financial information as of and for the years ended December 31, 2018, 2017 and 2016.

(in € million)	STADA			Senior Notes Issuer	
	Year ended December 31,			Nine months ended September 30,	
	2016	2017	2018	2018	2019
	(audited, except otherwise stated)			(unaudited)	
Sales . . . . .	2,139.2	2,313.9	2,330.8	1,708.3	1,903.0
Cost of sales . . . . .	(1,105.3)	(1,178.0)	(1,139.5)	(1,053.0)	(1,025.9)
<b>Gross Profit</b> . . . . .	<b>1,033.9</b>	<b>1,135.9</b>	<b>1,191.3</b>	<b>655.2</b>	<b>877.1</b>
Selling expenses . . . . .	(488.3)	(514.5)	(538.6)	(383.1)	(426.2)
General and administrative expenses . . . . .	(182.7)	(199.7)	(183.7)	(136.1)	(164.7)
Research and development expenses . . . . .	(65.1)	(67.5)	(72.3)	(53.7)	(51.5)
Other income . . . . .	19.3	41.3	84.4	32.1	23.6
Other expenses . . . . .	(138.9)	(203.3)	(103.1)	(70.6)	(107.8)
<b>Operating profit</b> . . . . .	<b>178.1</b>	<b>192.3</b>	<b>378.1</b>	<b>43.7</b>	<b>150.5</b>
Result from investments measured at equity . . . . .	0.7	2.3	3.7	3.7	(0.0)
Investment income . . . . .	0.0	(0.0)	0.0	—	—
Financial income . . . . .	2.7	3.6	5.6	16.6	7.3
Financial expenses . . . . .	(54.1)	(50.5)	(44.6)	(122.1)	(157.2)
<b>Financial result</b> . . . . .	<b>(50.7)</b>	<b>(44.5)</b>	<b>(35.2)</b>	<b>(101.8)</b>	<b>(149.9)</b>
<b>Earnings before taxes</b> . . . . .	<b>127.4</b>	<b>147.7</b>	<b>342.9</b>	<b>(58.0)</b>	<b>0.6</b>
Income taxes . . . . .	(31.9)	(53.0)	(32.3)	(20.2)	9.0
<b>Earnings after taxes</b> . . . . .	<b>95.5</b>	<b>94.8</b>	<b>310.5</b>	<b>(78.2)</b>	<b>9.7</b>
<i>thereof</i> : distributable to controlling shareholders (net income) . . . . .	85.9	85.3	306.9	(68.0)	1.4
<i>thereof</i> : distributable to non-controlling shareholders . . . . .	9.6	9.4	3.6	(10.2)	8.3
Division Data <sup>(1)</sup>					
Sales . . . . .	2,139.2	2,313.9	2,330.8	1,708.3	1,903.0
<i>thereof</i> : Generics . . . . .	1,280.7	1,361.7	1,382.8	1,009.9	1,119.9
<i>thereof</i> : Branded Products . . . . .	858.5	952.2	948.0	698.4	783.1

(1) Division data excludes income and expenses at the holding company level.

*Nine Months Ended September 30, 2019, Compared with Nine Months Ended September 30, 2018*

The following table provides an overview of the consolidated results of operations of the Senior Notes Issuer for the nine months ended September 30, 2018 and 2019.

(in € million, except percentages)	Senior Notes Issuer		
	Nine months ended September 30,		%
	2018	2019	
	(unaudited)		
Sales . . . . .	1,708.3	1,903.0	11%
Cost of sales . . . . .	(1,053.0)	(1,025.9)	(3)%
<b>Gross Profit</b> . . . . .	<b>655.2</b>	<b>877.1</b>	<b>34%</b>
Selling expenses . . . . .	(383.1)	(426.2)	11%
General and administrative expenses . . . . .	(136.1)	(164.7)	21%
Research and development expenses . . . . .	(53.7)	(51.5)	(4)%
Other income . . . . .	32.1	23.6	(27)%
Other expenses . . . . .	(70.6)	(107.8)	53%
<b>Operating profit</b> . . . . .	<b>43.7</b>	<b>150.5</b>	<b>&gt;100%</b>
Result from investments measured at equity . . . . .	3.7	(0.0)	>100%
Investment income . . . . .	—	—	—%
Financial income . . . . .	16.6	7.3	(56)%
Financial expenses . . . . .	(122.1)	(157.2)	29%
<b>Financial result</b> . . . . .	<b>(101.8)</b>	<b>(149.9)</b>	<b>47%</b>
<b>Earnings before taxes</b> . . . . .	<b>(58.0)</b>	<b>0.6</b>	<b>&gt;100%</b>
Income taxes . . . . .	(20.2)	9.0	>100%
<b>Earnings after taxes</b> . . . . .	<b>(78.2)</b>	<b>9.7</b>	<b>&gt;100%</b>
<i>thereof</i> : distributable to controlling shareholders (net income) . . . . .	(68.0)	1.4	>100%
<i>thereof</i> : distributable to non-controlling shareholders . . . . .	(10.2)	8.3	>100%

*Sales and Adjusted Sales*

Consolidated Sales

Sales increased by €194.7 million, or 11%, to €1,903.0 million in the nine months ended September 30, 2019, from €1,708.3 million in the nine months ended September 30, 2018. Over the same period, adjusted sales increased by €135.1 million, or 8%, to €1,903.0 million from €1,767.8 million. We adjust our sales to account for currency effects and portfolio changes. The following table provides a reconciliation of adjusted sales to reported sales for the nine months ended September 30, 2019, as well as information for



the previous period, which is presented as the basis of comparison for the nine months ended September 30, 2019.

(in € million, except percentages)	Senior Notes Issuer		
	Basis of comparison for the nine months ended September 30, 2019 <sup>(1)</sup>	Nine months ended September 30, 2019	%
		(unaudited)	
<b>Reported sales</b> . . . . .	<b>1,708.3</b>	<b>1,903.0</b>	<b>11%</b>
<i>thereof: Generics</i> . . . . .	1,009.9	1,119.9	11%
<i>thereof: Branded Products</i> . . . . .	698.4	783.1	12%
<b>Currency effects<sup>(2)</sup></b> . . . . .	<b>7.2</b>	—	—
<i>thereof: Generics</i> . . . . .	2.5	—	—
<i>thereof: Branded Products</i> . . . . .	4.7	—	—
<b>Portfolio changes</b> . . . . .	<b>(52.3)</b>	—	—
<i>thereof: Generics<sup>(3)</sup></i> . . . . .	(35.6)	—	—
<i>thereof: Branded Products</i> . . . . .	(16.7)	—	—
<b>Adjusted sales</b> . . . . .	<b>1,767.8</b>	<b>1,903.0</b>	<b>8%</b>
<i>thereof: Generics</i> . . . . .	1,048.0	1,119.9	7%
<i>thereof: Branded Products</i> . . . . .	719.8	783.1	9%

- (1) This column presents information for the nine months ended September 30, 2018, which serves as the comparative basis for the corresponding information for the nine months ended September 30, 2019 in the Topco Interim Financial Statements.
- (2) The adjustment in respect of currency effects removes the distorting impact of exchange rate movements that affect the comparability of sales for the periods presented. In calculating this adjustment we translate our non-euro-denominated sales in each period at the same foreign exchange rates as in the comparative period.
- (3) The adjustment in respect of portfolio changes is a like-for-like adjustment that excludes the effect of investments in and divestments of companies and products. In calculating this adjustment, we only take into account the organic sales generated by products that were sold in both periods that are being compared.

The adjustment in respect of currency effects increased sales in the nine months ended September 30, 2018 by €7.2 million. The adjustment primarily reflects the positive currency effects of the Russian ruble and the Vietnamese dong.

The adjustment in respect of portfolio changes is reported as an adjustment of the comparison period by €52.3 million and primarily represents sales of the acquired medical dandruff shampoo Nizoral product portfolio, the skincare product portfolio from GSK and sales due to the acquisition of a majority stake in BIOCEUTICALS Arzneimittel AG.

#### Constant Currency Sales

Constant currency sales increased by €185.9 million, or 10.8%, to €1,905.4 million in the nine months ended September 30, 2019, from €1,719.4 million in the nine months ended September 30, 2018.

#### Sales by Operating Division

##### *Generics*

Reported sales in our Generics division increased by €110.0 million, or 11%, to €1,119.9 million in the nine months ended September 30, 2019, from €1,009.9 million in the nine months ended September 30, 2018. This increase was mainly due to higher sales volumes in Germany and Europe (excluding Germany). Over the same period, adjusted sales in the Generics division increased by €71.9 million, or 7%, to €1,119.9 million, from €1,048.0 million. Generics remained stable at 59% of reported sales in the nine months ended September 30, 2019 compared to the previous period. Our top five active pharmaceutical ingredients accounted for sales of €137.0 million in the nine months ended September 30, 2019, or 12% of total sales in the Generics division, compared to €99.1 million, or 10%, in the nine months ended September 30, 2018. With sales of €56.4 million, an increase of €36.9 million, or 189%, from €19.5 million in the previous period, Epoetin Zeta was the best-selling active pharmaceutical ingredient in the Generics division in the nine months ended September 30, 2019.

### *Branded Products*

Reported sales in our Branded Products division increased by €84.7 million, or 12%, to €783.1 million in the nine months ended September 30, 2019, from €698.4 million in the nine months ended September 30, 2018. Over the same period, adjusted sales in the Branded Products division increased by €63.3 million, or 9%, to €783.1 million, from €719.8 million in the nine months ended September 30, 2018. The increase of reported sales was primarily due to strengthening of the consumer healthcare sales force in Europe as well as strong sales of Bortezomib and acquired products Nizoral and Ketodol. Branded Products accounted for 41% of reported sales in each of the nine months ended September 30, 2019 and 2018. Our top five Branded Products accounted for sales of €185.5 million in the nine months ended September 30, 2019, or 24% of sales in the Branded Products division, compared to €161.9 million, or 23%, in the nine months ended September 30, 2018.

### *Cost of Sales*

Cost of sales decreased by €27.2 million, or 3%, to €1,025.9 million in the nine months ended September 30, 2019, from €1,053.0 million in the nine months ended September 30, 2018. This decrease was primarily due to a favorable product mix and implementation of cost control measures.

### *Selling Expenses*

Selling expenses increased by €43.1 million, or 11%, to €426.2 million in the nine months ended September 30, 2019, from €383.1 million in the nine months ended September 30, 2018. This increase was primarily due to the focused strengthening of sales forces in key markets and strong promotional and marketing campaigns.

### *General and Administrative Expenses*

General and administrative expenses increased by €28.6 million, or 21%, to €164.7 million in the nine months ended September 30, 2019, from €136.1 million in the nine months ended September 30, 2018. This increase was primarily due to consultancy expenses in relation to the Sponsors' transformation program.

### *Research and Development Expenses*

Research and development expenses decreased by €2.2 million, or 4%, to €51.5 million in the nine months ended September 30, 2019, from €53.7 million in the nine months ended September 30, 2018. This decrease was primarily due to the realization of cost savings.

### *Other Income*

Other income decreased by €8.5 million, or 27%, to €23.6 million in the nine months ended September 30, 2019, from €32.1 million in the nine months ended September 30, 2018. This decrease was primarily due to insurance compensation in 2018 for the insolvency of a customer.

### *Other Expenses*

Other expenses increased by €37.2 million, or 53%, to €107.8 million in the nine months ended September 30, 2019, from €70.6 million in the nine months ended September 30, 2018. This increase was primarily due to higher impairments on intangible assets and increased severance payments.

### *Financial Results*

Financial results decreased by €48.1 million, or 47%, to a loss of €149.9 million in the nine months ended September 30, 2019, from a loss of €101.8 million in the nine months ended September 30, 2018. This decrease was primarily due to financing costs for the Delisting Offer in the fourth quarter in 2018.

### *Income Taxes*

Income taxes decreased by €29.2 million, or 145%, to an income of €9.0 million in the nine months ended September 30, 2019, from €20.2 million tax expenses in the nine months ended September 30, 2018. Income tax income amounted to €9.0 million based on the weighted average effective annual income tax

rate expected for the full financial year of 22.9%, compared to (19.4)% for the nine months ended September 30, 2018. The tax rate was higher in 2019 due to prior period taxes.

### *Key Earnings Figures*

Overall, our results of operations in the nine months ended September 30, 2019 benefited from favorable trends in the Generics division in Germany and Europe as well as in the Branded Products division in Germany and the United Kingdom, linked with successful product launches and growth of top products.

### *Operating Profit and Adjusted Operating Profit*

Reported operating profit increased by €106.7 million, or 244%, to €150.5 million in the nine months ended September 30, 2019, from €43.7 million in the nine months ended September 30, 2018. Due to adjustments for special items, adjusted operating profit increased by 22% to €362.4 million from €295.9 million in the previous period.

Reported operating profit in the Generics division increased by €84.8 million, or 84%, to €186.3 million in the nine months ended September 30, 2019, from €101.4 million in the nine months ended September 30, 2018. This increase was primarily due to improved results of operations in Germany and Europe (excluding Germany) together with realized cost savings. Adjusted operating profit in the Generics division increased by 18% to €288.7 million from €245.0 million in the previous period. The adjusted operating profit margin of Generics was 26%, compared to 24% in the previous period. The reported operating profit margin of our Generics division was 17%, compared to 10% in the previous period.

Reported operating profit in the Branded Products division increased by €49.1 million to €73.6 million in the nine months ended September 30, 2019, from €24.5 million in the nine months ended September 30, 2018. Adjusted operating profit in the Branded Products division increased by 29% to €166.1 million from €128.6 million in the previous period. This increase was also due to improved results of operations in Germany and the United Kingdom, together with realized costs savings and successful product launches. The adjusted operating profit margin of Branded Products was 21%, compared to 18% in the previous period. The reported operating profit margin of our Branded Products division was 9%, compared 4% in the previous period.

### *Net Income and Adjusted Net Income*

Reported net income increased by €69.4 million, or 102%, to €1.4 million in the nine months ended September 30, 2019, from a loss of €68.0 million in the nine months ended September 30, 2018. Due to adjustments for special items, adjusted net income increased by €78.3 million, or 105%, to €152.9 million from €74.6 million in the previous period.

### *EBITDA and Management Adjusted EBITDA*

EBITDA increased by €149.3 million, or 50%, to €447.1 million in the nine months ended September 30, 2019, from €297.8 million in the nine months ended September 30, 2018. Due to adjustments for special items, Management Adjusted EBITDA increased by 20% to €467.8 million from €388.4 million in the previous period.

EBITDA in our Generics division increased by €110.7 million, or 51%, to €328.7 million in the nine months ended September 30, 2019, from €218.0 million in the nine months ended September 30, 2018. This increase was due to improved sales in Germany and Europe but also influenced by purchase price allocation effects that negatively affected the previous year. The EBITDA margin in Generics was 29%, compared to 22% in the previous period. Management Adjusted EBITDA in our Generics division increased by 18% to €332.3 million from €280.9 million in the previous period. This increase in Management Adjusted EBITDA was primarily driven by improved sales in Germany and Europe. The Management Adjusted EBITDA margin of our Generics division was 30%, compared to 28% in the previous period.

EBITDA in our Branded Products division increased by €62.5 million, or 40%, to €217.9 million in the nine months ended September 30, 2019, from €155.4 million in the nine months ended September 30, 2018. This increase was driven by strong sales of Bortezomib, as well as improved sales of our Branded Products in the United Kingdom. The previous year was negatively affected by purchase price allocation effects. The EBITDA margin of Branded Products was 28%, compared to 22% in the previous period. Management Adjusted EBITDA in our Branded Products division increased by 22% to €218.0 million from

€178.6 million in the previous period. This increase was mainly due to strong sales of Bortezomib and improved sales in the United Kingdom. The Management Adjusted EBITDA margin of our Branded Products division was 28%, compared to 26% in the previous period.

***Year Ended December 31, 2018, Compared with Year Ended December 31, 2017***

The following table provides an overview of the consolidated results of operations of STADA for the years ended December 31, 2017 and 2018.

(in € million, except percentages)	STADA		
	Year ended December 31,		%
	2017	2018	
	(audited)		
Sales . . . . .	2,313.9	2,330.8	1%
Cost of sales . . . . .	(1,178.0)	(1,139.5)	(3)%
<b>Gross Profit . . . . .</b>	<b>1,135.9</b>	<b>1,191.3</b>	<b>5%</b>
Selling expenses . . . . .	(514.5)	(538.6)	5%
General and administrative expenses . . . . .	(199.7)	(183.7)	(8)%
Research and development expenses . . . . .	(67.5)	(72.3)	7%
Other income . . . . .	41.3	84.4	104%
Other expenses . . . . .	(203.3)	(103.1)	(49)%
<b>Operating profit . . . . .</b>	<b>192.3</b>	<b>378.1</b>	<b>97%</b>
Result from investments measured at equity . . . . .	2.3	3.7	62%
Investment income . . . . .	(0.0)	0.0	—
Financial income . . . . .	3.6	5.6	55%
Financial expenses . . . . .	(50.5)	(44.6)	(12)%
<b>Financial result . . . . .</b>	<b>(44.5)</b>	<b>(35.2)</b>	<b>(21)%</b>
<b>Earnings before taxes . . . . .</b>	<b>147.7</b>	<b>342.9</b>	<b>132%</b>
Income taxes . . . . .	(53.0)	(32.3)	(39)%
<b>Earnings after taxes . . . . .</b>	<b>94.8</b>	<b>310.5</b>	<b>228%</b>
<i>thereof</i> : distributable to controlling shareholders (net income) . . . . .	85.3	306.9	260%
<i>thereof</i> : distributable to non-controlling shareholders . . . . .	9.4	3.6	(62)%

***Sales and Adjusted Sales***

***Consolidated Sales***

Sales increased by €16.9 million, or 1%, to €2,330.8 million in the year ended December 31, 2018, from €2,313.9 million in the year ended December 31, 2017. Over the same period, adjusted sales increased by €112.3 million, or 5%, to €2,330.8 million from €2,218.5 million. We adjust our sales to account for currency effects and portfolio changes.

The following table provides a reconciliation of adjusted sales to reported sales for the year ended December 31, 2018, as well as information for the previous period, which is presented as the basis of comparison for the year ended December 31, 2018:

(in € million)	STADA		
	Basis of comparison for the year ended December 31, 2018 <sup>(1)</sup>	Year ended December 31, 2018 <sup>(2)</sup>	%
	(unaudited, unless otherwise stated)		
<b>Reported sales</b> . . . . .	<b>2,313.9<sup>(5)</sup></b>	<b>2,330.8<sup>(5)</sup></b>	<b>1%</b>
<i>thereof: Generics</i> . . . . .	1,361.7 <sup>(5)</sup>	1,382.8 <sup>(5)</sup>	2%
<i>thereof: Branded Products</i> . . . . .	952.2 <sup>(5)</sup>	948.0 <sup>(5)</sup>	(0)%
<b>Currency effects<sup>(3)</sup></b> . . . . .	<b>(54.1)</b>	<b>—</b>	<b>—</b>
<i>thereof: Generics</i> . . . . .	(19.0)	—	—
<i>thereof: Branded Products</i> . . . . .	(35.1)	—	—
<b>Portfolio changes<sup>(4)</sup></b> . . . . .	<b>(41.3)</b>	<b>—</b>	<b>—</b>
<i>thereof: Generics</i> . . . . .	(21.2)	—	—
<i>thereof: Branded Products</i> . . . . .	(20.1)	—	—
<b>Adjusted sales</b> . . . . .	<b><u>2,218.5</u></b>	<b><u>2,330.8</u></b>	<b>5%</b>
<i>thereof: Generics</i> . . . . .	1,321.5	1,382.8	5%
<i>thereof: Branded Products</i> . . . . .	897.0	948.0	6%

(1) This column presents information for the year ended December 31, 2017, which serves as the comparative basis for the corresponding information for the year ended December 31, 2018 in the STADA Financial Statements.

(2) Prior to 2018, adjusted sales for the current financial year were adjusted for currency effects compared with the previous year and for portfolio effects from new acquisitions. Due to the inclusion of historical exchange rates and the disregard of the current portfolio, we are of the opinion that future sales potential is not sufficiently reflected in this figure. Since the 2018 financial year, all portfolio and currency effects have therefore been allocated to the previous financial year in order to determine organic growth, and adjustments for currency and portfolio effects are shown solely as an adjustment to previous year sales. The currency adjustment of the previous year's sales is made using the exchange rates of the reporting year. The portfolio effects consider the sales of the previous year as well as the sales of the reporting year, with the adjustment only applied to the previous year's figure.

(3) The adjustment in respect of currency effects removes the distorting impact of exchange rate movements that affect the comparability of sales for the periods presented. In calculating this adjustment we translate our non-euro-denominated sales in each period at the same foreign exchange rates as in the comparative period.

(4) The adjustment in respect of portfolio changes is a like-for-like adjustment that excludes the effect of investments in and divestments of companies and products. In calculating this adjustment, we only take into account the organic sales generated by products that were sold in both periods that are being compared.

(5) Represents audited financial data as of and for the years ended December 31, 2018 and 2017.

The net changes to the portfolio as an adjustment to the reported sales for the year ended December 31, 2017 totaled €41.3 million, or an adjustment of 2%. The changes to the portfolio for the year ended December 31, 2018 totaled €11.2 million, primarily due to the acquisition of branded products in Argentina, the Nizoral product portfolio and the majority acquisition of BIOCEUTICALS Arzneimittel AG, and as a retrospective adjustment to the previous year totaled €52.5 million, primarily due to the deconsolidation of STADA Vietnam J.V. Co. Ltd ("STADA Vietnam").

We showed a negative currency effect resulting from the translation of local sales contribution into euro of €54.1 million for the year ended December 31, 2017, or an adjustment of 2.4% to the reported sales for the year ended December 31, 2017.

#### Constant Currency Sales

Constant currency sales increased by €69.7 million, or 3.1%, to €2,349.2 million in the year ended December 31, 2018, from €2,279.4 million in the year ended December 31, 2017.



## Sales by Operating Division

### *Generics*

Reported sales in our Generics division increased by €21.2 million, or 2%, to €1,382.8 million in the year ended December 31, 2018, from €1,361.7 million in the year ended December 31, 2017. This increase was mainly due to increased sales in Europe and increased sales in Germany. Over the same period, adjusted sales in the Generics division increased by €61.3 million, or 5%, to €1,382.8 million, from €1,321.5 million. Generics remained stable at 59% of reported sales in the year ended December 31, 2018 compared to the previous period. Our top five active pharmaceutical ingredients accounted for sales of €135.7 million in the year ended December 31, 2018, or 10% of total sales in the Generics division, compared to €128.9 million, or 10%, in the year ended December 31, 2017. With sales of €38.0 million, an increase of €1.5 million, or 4%, from €36.5 million in the previous period, Tilidine Naloxone was the best-selling active pharmaceutical ingredient in the Generics division in the year ended December 31, 2018.

### *Branded Products*

Reported sales in our Branded Products division slightly decreased by €4.3 million to €948.0 million in the year ended December 31, 2018, from €952.2 million in the year ended December 31, 2017. Over the same period, adjusted sales in the Branded Products division increased by €51.0 million, or 6%, to €948.0 million, from €897.0 million in the year ended December 31, 2017. The increase in adjusted sales was primarily due to increased sales in Germany and the United Kingdom. Branded Products accounted for 41% of reported sales in each of the years ended December 31, 2018 and 2017. Our top five Branded Products accounted for sales of €215.8 million in the year ended December 31, 2018, or 23% of sales in the Branded Products division, compared to €220.9 million, or 23%, in the year ended December 31, 2017. With sales of €71.3 million, an increase of 3.1 million, or 5%, from €68.2 million in the previous period, the Parkinson's medication APO-Go was the best-selling active pharmaceutical ingredient in the Branded Products division in the year ended December 31, 2018.

### *Cost of Sales*

Cost of sales decreased by €38.5 million, or 3%, to €1,139.5 million in the year ended December 31, 2018, from €1,178.0 million in the year ended December 31, 2017. This decrease was primarily due to improved purchasing conditions.

### *Selling Expenses*

Selling expenses increased by €24.1 million, or 5%, to €538.6 million in the year ended December 31, 2018, from €514.5 million in the year ended December 31, 2017. This increase was primarily due to higher marketing expenses in connection with product launches, particularly in Europe and CIS.

### *General and Administrative Expenses*

General and administrative expenses decreased by €16.0 million, or 8%, to €183.7 million in the year ended December 31, 2018, from €199.7 million in the year ended December 31, 2017. This decrease was primarily due to cost savings and lower costs for consultancy services.

### *Research and Development Expenses*

Research and development expenses increased by €4.8 million, or 7%, to €72.3 million in the year ended December 31, 2018, from €67.5 million in the year ended December 31, 2017. This increase was primarily due to an extension of the Apo-Go product portfolio.

### *Other Income*

Other income increased by €43.1 million, or 104%, to €84.4 million in the year ended December 31, 2018, from €41.3 million in the year ended December 31, 2017. This increase was primarily due to the capital consolidation of BIOCEUTICALS Arzneimittel AG, which was considered to be a special item in the financial year ended December 31, 2018.

### *Other Expenses*

Other expenses decreased by €100.2 million, or 49%, to €103.1 million in the year ended December 31, 2018, from €203.3 million in the year ended December 31, 2017. This decrease was primarily due to lower severance payments and reduced impairments on trade accounts receivable as well as reduced costs for consultancy services.

### *Financial Result*

Financial result decreased by €9.4 million, or 21%, to a loss of €35.2 million in the year ended December 31, 2018, from a loss of €44.5 million in the year ended December 31, 2017. This decrease was primarily due to lower interest expenses as a result of the refinancing of STADA Arzneimittel AG in 2018 at interest rates between 0.95% and 2.3% per annum, compared to between 0.8% and 4.23% per annum for the previous year. In addition, the Group also financed itself at interest rates between 2.84% per annum and 3.19% per annum, compared to between 2.9% and 5.5% per annum for the previous year.

### *Income Taxes*

Income taxes decreased by €20.6 million, or 39%, to €32.3 million in the year ended December 31, 2018, from €53.0 million in the year ended December 31, 2017. This decrease was primarily due to the change in tax status of STADA Arzneimittel AG. As a consequence, all deferred taxes from the previous parent company were transferred to the new parent company, Nidda BondCo GmbH, while STADA Arzneimittel AG was responsible for taxes on recurring compensation payments.

### *Key Earnings Figures*

Overall, our results of operations in the year ended December 31, 2018 benefited from favorable trends in the Generics division in Germany and Europe as well as in the Branded Products division in Germany and the United Kingdom.

### *Operating Profit and Adjusted Operating Profit*

Reported operating profit increased by €185.8 million, or 97%, to €378.1 million in the year ended December 31, 2018, from €192.3 million in the year ended December 31, 2017. Due to adjustments for special items, adjusted operating profit increased by 22% to €392.7 million, from €322.3 million in the previous period.

Reported operating profit in the Generics division increased by €58.6 million, or 25%, to €291.9 million in the year ended December 31, 2018, from €233.2 million in the year ended December 31, 2017. This increase was primarily due to improved results of operations in the Generics division in Germany and Europe (excluding Germany). Adjusted operating profit in the Generics division increased by 24% to €307.9 million from €248.8 million in the previous period. The adjusted operating profit margin of Generics was 22%, compared to 18% in the previous period. The reported operating profit margin of our Generics division was 21%, compared to 17% in the previous period.

Reported operating profit in the Branded Products division increased by €65.7 million, or 66%, to €165.0 million in the year ended December 31, 2018, from €99.3 million in the year ended December 31, 2017. This increase was primarily due to an increase in operating profit in the Branded Products division in Germany and the United Kingdom. Adjusted operating profit in the Branded Products division increased by 21% to €189.4 million from €156.2 million in the previous period. The adjusted operating profit margin of Branded Products was 20%, compared to 16% in the previous period. The reported operating profit margin of Branded Products was 17%, compared to 10% in the previous period.

### *Net Income and Adjusted Net Income*

Reported net income increased by €221.6 million, or 260%, to €306.9 million in the year ended December 31, 2018, from €85.3 million in the year ended December 31, 2017. Due to adjustments for special items, adjusted net income increased by €88.4 million, or 45%, to €284.0 million from €195.6 million in the previous period.

### *EBITDA and Management Adjusted EBITDA*

EBITDA increased by €166.8 million, or 46%, to €530.6 million in the year ended December 31, 2018, from €363.8 million in the year ended December 31, 2017. Due to adjustments for special items, Management Adjusted EBITDA increased by 16% to €503.5 million from €433.9 million in the previous period.

EBITDA in our Generics division increased by €66.7 million, or 23%, to €359.2 million in the year ended December 31, 2018, from €292.5 million in the year ended December 31, 2017. This increase was primarily due to improved results of operations in the Generics division in Serbia, Germany and Belgium. The EBITDA margin in Generics was 26%, compared to 21% in the previous period. Management Adjusted EBITDA in our Generics division increased by €56.8 million, or 19%, to €359.6 million from €302.8 million in the previous period. The Management Adjusted EBITDA margin of our Generics division was 26%, compared to 22% in the previous period.

EBITDA in our Branded Products division increased by €37.6 million, or 18%, to €242.5 million in the year ended December 31, 2018, from €204.9 million in the year ended December 31, 2017. This increase was primarily due to an increase in operating profit in the Branded Products division in Germany and the United Kingdom. The EBITDA margin of Branded Products was 26%, compared to 22% in the previous period. Management Adjusted EBITDA in our Branded Products division increased by €33.1 million, or 16%, to €240.6 million from €207.4 million in the previous period. The Management Adjusted EBITDA margin of our Branded Products division was 25%, compared to 22% in the previous period.

### *Special Items*

When adjusting for special items, earnings before taxes would have been higher by €14.7 million in the year ended December 31, 2018, compared to our reported results for the year ended December 31, 2018.

The following tables provide an overview of our special items and their impact on certain line items for the years ended December 31, 2018 and 2017:

(in € million)	STADA						Year ended December 31, 2018 adjusted
	Year ended December 31, 2018 reported	Impairments/ write-ups on non-current assets	Effects from purchase price allocations and product acquisitions <sup>(1)</sup>	Severance payments	Revaluation effect BIO- CEUTICALS	Change of tax status of STADA Arzneimittel AG	
			(unaudited, unless otherwise stated)				
<b>Operating profit . . . . .</b>	<b>378.1<sup>(2)</sup></b>	<b>26.3</b>	<b>14.1</b>	<b>2.6</b>	<b>(28.3)</b>	<b>0.0</b>	<b>392.7</b>
Result from investments measured at equity . . . .	3.7 <sup>(2)</sup>	—	—	—	—	—	3.7
Investment income . . . . .	0.0 <sup>(2)</sup>	—	—	—	—	—	0.0
<b>Earnings before interest and taxes (EBIT) . . . . .</b>	<b>381.8<sup>(2)</sup></b>	<b>26.3</b>	<b>14.1</b>	<b>2.6</b>	<b>(28.3)</b>	<b>—</b>	<b>396.5</b>
Financial income and expenses . . . . .	38.9 <sup>(2)</sup>	—	—	—	—	—	38.9
<b>Earnings before taxes (EBT) . . . . .</b>	<b>342.9<sup>(2)</sup></b>	<b>26.3</b>	<b>14.1</b>	<b>2.6</b>	<b>(28.3)</b>	<b>0.0</b>	<b>357.6</b>
Income taxes . . . . .	(32.3) <sup>(2)</sup>	(6.5)	(1.0)	—	—	(28.9)	(68.7)
Result distributable to non-controlling shareholders . . . . .	3.6 <sup>(2)</sup>	0.3	0.9	—	—	—	4.8
<b>Result distributable to shareholders of STADA Arzneimittel AG (net income) . . . . .</b>	<b>306.9<sup>(2)</sup></b>	<b>19.5</b>	<b>12.2</b>	<b>2.6</b>	<b>(28.3)</b>	<b>(28.9)</b>	<b>284.0</b>
<b>Earnings before interest and taxes (EBIT) . . . . .</b>	<b>381.8<sup>(2)</sup></b>	<b>26.3</b>	<b>14.1</b>	<b>2.6</b>	<b>(28.3)</b>	<b>—</b>	<b>396.5</b>
Balance from depreciation/ amortization and impairments/write-ups of intangible assets (including goodwill), property, plant and equipment and financial assets . . . . .	148.8 <sup>(2)</sup>	(26.3)	(15.5)	—	—	—	107.0
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA/ Management Adjusted EBITDA) . . . . .</b>	<b>530.6<sup>(2)</sup></b>	<b>—</b>	<b>(1.4)<sup>(2)</sup></b>	<b>2.6<sup>(2)</sup></b>	<b>(28.3)<sup>(2)</sup></b>	<b>—</b>	<b>503.5<sup>(2)</sup></b>

(1) In 2013, we completed several acquisitions (including the acquisition of Thornton & Ross in the United Kingdom, as well as our acquisition of control over the Vietnamese companies Pymepharco and STADA Vietnam) which resulted in purchase price allocations as well as measurement effects. Taking 2013 as a baseline, this adjustment adds back additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions.

(2) Represents audited financial data as of and for the year ended December 31, 2018.

STADA						
(in € million)	2017 reported	Impairments/ write-ups on non-current assets	Effects from purchase price allocations and product acquisitions <sup>(1)</sup>	Consultancy services in connection with the takeover process	Other <sup>(2)</sup>	2017 adjusted
	(unaudited, unless otherwise stated)					
Operating profit . . . . .	192.3 <sup>(3)</sup>	46.4	9.4	45.0	29.2	322.3
Result from investments measured at equity . . . . .	2.3 <sup>(3)</sup>	—	—	—	—	2.3
Investment income . . . . .	(0.0) <sup>(3)</sup>	—	—	—	—	(0.0)
<b>Earnings before interest and taxes (EBIT) . . . . .</b>	<b>194.6</b>	<b>46.4</b>	<b>9.4</b>	<b>45.0</b>	<b>29.2</b>	<b>324.6</b>
Financial income and expenses . . .	46.8	—	—	—	0.0	46.8
<b>Earnings before taxes (EBT) . . . .</b>	<b>147.7<sup>(3)</sup></b>	<b>46.4</b>	<b>9.4</b>	<b>45.0</b>	<b>29.2</b>	<b>277.8</b>
Income taxes . . . . .	(53.0) <sup>(3)</sup>	(8.8)	(0.9)	(12.8)	2.1	(73.5)
Result distributable to non-controlling shareholders . . .	9.4 <sup>(3)</sup>	0.2	(0.9)	—	—	8.7
<b>Result distributable to shareholders of STADA</b>						
<b>Arzneimittel AG (net income) . .</b>	<b>85.3</b>	<b>37.4</b>	<b>9.4</b>	<b>32.2</b>	<b>31.3</b>	<b>195.6</b>
Earnings before interest and taxes (EBIT) . . . . .	194.6	46.4	9.4	45.0	29.2	324.6
Balance from depreciation/ amortization and impairments/ write-ups of intangible assets (including goodwill), property, plant and equipment and financial assets . . . . .	169.2 <sup>(3)</sup>	(46.4)	(13.6)	—	—	109.3
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA/Management Adjusted EBITDA) . . . . .</b>	<b>363.8<sup>(3)</sup></b>	<b>—</b>	<b>(4.2)<sup>(3)</sup></b>	<b>45.0<sup>(3)</sup></b>	<b>29.2<sup>(3)</sup></b>	<b>433.9<sup>(3)</sup></b>

- (1) In 2013, we completed several acquisitions (including the acquisition of Thornton & Ross in the United Kingdom, as well as our acquisition of control over the Vietnamese companies Pymepharco and STADA Vietnam) which resulted in purchase price allocations as well as measurement effects. Taking 2013 as a baseline, this adjustment adds back additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions.
- (2) Relates to miscellaneous extraordinary income and expenses, among other things, from severance payments for former members of the Executive Board and restructuring measures, the deconsolidation effects of a Vietnamese subsidiary and deferred taxes within the income statement.
- (3) Represents audited financial data as of and for the year ended December 31, 2017.



***Year Ended December 31, 2017, Compared with Year Ended December 31, 2016***

The following table provides an overview of STADA's consolidated results of operations for the years ended December 31, 2016 and 2017.

(in € million, except for percentages)	STADA		
	Year ended December 31,		%
	2016	2017	
	(audited)		
Sales . . . . .	2,139.2	2,313.9	8%
Cost of sales . . . . .	(1,105.3)	(1,178.0)	7%
<b>Gross Profit . . . . .</b>	<b>1,033.9</b>	<b>1,135.9</b>	<b>10%</b>
Selling expenses . . . . .	(488.3)	(514.5)	5%
General and administrative expenses . . . . .	(182.7)	(199.7)	9%
Research and development expenses . . . . .	(65.1)	(67.5)	4%
Other income . . . . .	19.3	41.3	114%
Other expenses . . . . .	(138.9)	(203.3)	46%
<b>Operating profit . . . . .</b>	<b>178.1</b>	<b>192.3</b>	<b>8%</b>
Result from investments measured at equity . . . . .	0.7	2.3	228%
Investment income . . . . .	0.0	(0.0)	—
Financial income . . . . .	2.7	3.6	34%
Financial expenses . . . . .	(54.1)	(50.5)	(7)%
<b>Financial result . . . . .</b>	<b>(50.7)</b>	<b>(44.5)</b>	<b>(12)%</b>
<b>Earnings before taxes . . . . .</b>	<b>127.4</b>	<b>147.7</b>	<b>16%</b>
Income taxes . . . . .	(31.9)	(53.0)	66%
<b>Earnings after taxes . . . . .</b>	<b>95.5</b>	<b>94.8</b>	<b>(1)%</b>
<i>thereof</i> : distributable to shareholders of STADA Arzneimittel AG (net income) . . . . .	85.9	85.3	(1)%
<i>thereof</i> : distributable to non-controlling shareholders . . . . .	9.6	9.4	(2)%

***Sales and Adjusted Sales***

***Consolidated Sales***

Sales increased by €174.7 million, or 8%, to €2,313.9 million in the year ended December 31, 2017, from €2,139.2 million in the year ended December 31, 2016. Over the same period, adjusted sales increased by €126.6 million, or 6%, to €2,255.3 million. Our adjustments to sales account for currency effects and portfolio changes. The following table provides a reconciliation of adjusted sales to reported sales for the

year ended December 31, 2017, as well as information for the previous year, which is presented as the basis of comparison for the year ended December 31, 2017:

	STADA		
	Basis of comparison for the year ended December 31, 2017 <sup>(1)</sup>	Year ended December 31, 2017	%
	(unaudited, unless otherwise stated)		
(in € million, except for percentages)			
<b>Reported sales</b> . . . . .	<b>2,139.2<sup>(4)</sup></b>	<b>2,313.9<sup>(4)</sup></b>	<b>8%</b>
<i>thereof</i> : Generics . . . . .	1,280.7 <sup>(4)</sup>	1,361.7 <sup>(4)</sup>	6%
<i>thereof</i> : Branded Products . . . . .	858.5 <sup>(4)</sup>	952.2 <sup>(4)</sup>	11%
<b>Currency effects<sup>(2)</sup></b> . . . . .	<b>—</b>	<b>(10.2)</b>	<b>—</b>
<i>thereof</i> : Generics . . . . .	—	(4.3)	—
<i>thereof</i> : Branded Products . . . . .	—	(5.9)	—
<b>Portfolio changes<sup>(3)</sup></b> . . . . .	<b>(10.5)</b>	<b>(48.4)</b>	<b>—</b>
<i>thereof</i> : Generics . . . . .	(8.2)	(33.0)	—
<i>thereof</i> : Branded Products . . . . .	(2.3)	(15.4)	—
<b>Adjusted sales</b> . . . . .	<b>2,128.7</b>	<b>2,255.3</b>	<b>6%</b>
<i>thereof</i> : Generics . . . . .	1,272.5	1,324.4	4%
<i>thereof</i> : Branded Products . . . . .	856.2	930.9	9%

(1) This column presents information for the year ended December 31, 2016, which serves as the comparative basis for the corresponding information for the year ended December 31, 2017 in the STADA Financial Statements.

(2) The adjustment in respect of currency effects removes the distorting impact of exchange rate movements that affect the comparability of sales for the periods presented. In calculating this adjustment we translate our non-euro-denominated sales in each period at the same foreign exchange rates as in the comparative period.

(3) The adjustment in respect of portfolio changes is a like-for-like adjustment that excludes the effect of investments in and divestments of companies and products. In calculating this adjustment, we only take into account the organic sales generated by products that were sold in both comparative periods.

(4) Represents audited financial data as of and for the years ended December 31, 2016 and 2017.

The adjustment in respect of currency effects decreased sales in the year ended December 31, 2017 by €10.2 million. The adjustment was primarily driven by the Russian ruble, British pound sterling and Serbian dinar. Foreign exchange translation effects in relation to other currencies had only a minor impact on our sales.

The adjustment in respect of portfolio changes decreased sales in the year ended December 31, 2017 by €48.4 million, primarily due to the acquisitions of Velexfarm, our Serbian subsidiary, and Natures Aid Limited, a British company. In the year ended December 31, 2016, the retrospective adjustment in respect of portfolio changes decreased sales by €10.5 million, primarily due to the deconsolidation of STADA Vietnam and the disposal of STADA Import/Export International Ltd.

#### Constant Currency Sales

Constant currency sales increased by €162.3 million, or 8%, to €2,253.6 million in the year ended December 31, 2017, from €2,091.3 million in the year ended December 31, 2016.

#### Sales by Operating Division

##### Generics

Reported sales in our Generics division increased by €81.0 million, or 6%, to €1,361.7 million in the year ended December 31, 2017, from €1,280.7 million in the year ended December 31, 2016. This increase was primarily due to increased sales in the Belgian and Italian markets as well as contributions from our newly consolidated Serbian subsidiary, Velexfarm. Over the same period, adjusted sales in the Generics division increased by €51.9 million, or 4%, to €1,324.4 million, from €1,272.5 million. Generics accounted for 59% of consolidated sales in 2017, remaining relatively stable compared to 60% in the previous year. Our top five active pharmaceutical ingredients accounted for sales of €128.9 million in the year ended December 31, 2017, or 10% of total sales in the Generics division, compared to €133.4 million, or 10%, in the year ended December 31, 2016. With sales of €36.5 million, Tilidine Naloxone was the best-selling

active pharmaceutical ingredient in the Generics division in 2017, notwithstanding a decrease of €7.1 million, or 16%, from €43.6 million in the previous year due to the expiration of a tender in Germany.

### *Branded Products*

Reported sales in our Branded Products division increased by €93.8 million, or 11%, to €952.2 million in the year ended December 31, 2017, from €858.5 million in the year ended December 31, 2016. This increase was primarily driven by higher sales in Russia and Serbia. Over the same period, adjusted sales in the Branded Products division increased by 9% to €930.9 million in 2017, from €856.2 million in 2016. Branded Products accounted for 41% of consolidated sales in 2017, remaining relatively stable compared to 40% of consolidated sales in the previous year. Our top five Branded Products accounted for sales of €220.9 million in the year ended December 31, 2017, or 23% of sales in the Branded Products division, compared to €177.1 million, or 21% of sales of Branded Products, in the year ended December 31, 2016.

### *Sales by Geographic Area*

The following tables show our sales by reporting division and country for the years ended December 31, 2017 and 2016:

Generics—Eight Largest Markets (in € million, except for percentages)	STADA		
	Year ended December 31,		%
	2016	2017	
	(unaudited, unless otherwise stated)		
Germany . . . . .	308.0	297.3	(3)%
Italy . . . . .	157.7	170.5	8%
Belgium . . . . .	90.7	120.8	33%
Russia . . . . .	92.5	106.3	15%
Spain . . . . .	105.4	105.5	0%
Serbia . . . . .	55.8	94.3	69%
France . . . . .	81.9	78.9	(4)%
Vietnam . . . . .	69.1	64.6	(7)%
Other . . . . .	319.7	323.5	1%
<b>Total Generics division . . . . .</b>	<b>1,280.7<sup>(1)</sup></b>	<b>1,361.7<sup>(1)</sup></b>	<b>6%</b>

(1) Represents audited financial data as of and for the years ended December 31, 2016 and 2017.

	STADA		
	Year ended December 31,		
Branded Products—Five Largest Markets (in € million, except for percentages)	2016	2017	%
	(unaudited, unless otherwise stated)		
Russia . . . . .	150.1	236.8	58%
Germany . . . . .	177.4	172.8	(3)%
United Kingdom . . . . .	175.4	165.3	(6)%
Italy . . . . .	43.9	43.0	(2)%
Vietnam . . . . .	36.7	37.9	3%
Other . . . . .	275.0	296.4	8%
<b>Total Branded Products division . . . . .</b>	<b>858.5<sup>(1)</sup></b>	<b>952.2<sup>(1)</sup></b>	<b>11%</b>

(1) Represents audited financial data as of and for the years ended December 31, 2016 and 2017.

### *Germany*

Sales in Germany decreased by €15.3 million, or 3%, to €470.1 million in the year ended December 31, 2017, from €485.4 million in the year ended December 31, 2016. In the year ended December 31, 2017, Generics accounted for €297.3 million, or 63% of sales in Germany, compared to €308.0 million, or 63%, in the previous period. This decrease was primarily due to lower sales by our German subsidiary STADAPHARM as a result of the expiration of certain discount agreements in 2016, which was partly

offset by higher sales of our German subsidiary ALIUD PHARMA as a result of new discount agreements awarded through tenders. In the year ended December 31, 2017, Branded Products accounted for €172.8 million, or 37% of sales in Germany, compared to €177.4 million, or 37%, in the previous period. This decrease was primarily due to a decrease in sales of our Parkinson's treatment product APO-go, which was partly offset by increased sales recorded by our German subsidiary STADA GmbH as a result of the successful launch of two new Branded Products, Hedrin and ViruProtect.

#### *Italy*

Sales in Italy increased by €11.9 million, or 6%, to €213.5 million in the year ended December 31, 2017, from €201.6 million in the year ended December 31, 2016. Over the same period, sales of Generics in Italy increased by 8% to €170.5 million, from €157.7 million in the previous period. Generics accounted for 80% of our sales in Italy in the year ended December 31, 2017 compared to 78% in the previous period. This increase was mainly driven by growth in sales volumes, new product launches and price increases. Sales of Branded Products in Italy decreased to €43.0 million in the year ended December 31, 2017, compared to €43.9 million in the previous period. This decrease was mainly due to the termination of a license agreement in the second half of 2017 due to the decision to market our products directly through our Italian sales company, which had a negative impact on sales volumes. Branded Products accounted for 20% of our sales in Italy in the year ended December 31, 2017 compared to 22% in the previous period.

#### *Belgium*

Sales of Generics in Belgium increased by €30.1 million, or 33%, to €120.8 million in the year ended December 31, 2017, from €90.7 million in the year ended December 31, 2016, primarily due to an increase in sales volumes as a result of a new sales strategy, independence from our former Belgian distribution partner and a declining discount rate following the termination of the previously existing distribution agreement. In the year ended December 31, 2017, Generics accounted for 91% of our Belgian sales, compared to 89% in the previous period. Branded Products accounted for the balance of our sales in each period.

#### *Russia*

Sales in Russia increased by €100.5 million, or 41%, to €343.1 million in the year ended December 31, 2017, from €242.6 million in the year ended December 31, 2016. Over the same period, sales of Generics increased by 4%, when applying the previous year's exchange rates. This increase was mainly due to an increase in the volume of sales. On an actual basis, sales of Generics increased by 15% to €106.3 million from €92.5 million, primarily due to a favorable currency fluctuation of the Russian ruble, which increased the value of our sales in Russia. In the year ended December 31, 2017, Generics accounted for 31% of sales in Russia, compared to 38% in the previous period, and sales of Branded Products increased by 43%, applying the previous year's exchange rates. On an actual basis, sales of Branded Products increased by 58% to €236.8 million from €150.1 million in the previous period. In addition to an increase in sales volumes, this increase was driven by the favorable currency fluctuation of the Russian ruble, which significantly increased the value of our sales in Russia. In the year ended December 31, 2017, Branded Products accounted for 69% of sales in Russia, compared to 62% in the previous period.

#### *Spain*

Sales of Generics in Spain slightly increased to €105.5 million in the year ended December 31, 2017 compared to €105.4 million in the year ended December 31, 2016, primarily due to product launches and higher sales volumes, despite a general decline of Generics in the Spanish market. In the year ended December 31, 2017, Generics accounted for 86% of our sales in Spain, compared to 87% in the previous period. Branded Products accounted for the balance of our sales in each period.

#### *Serbia*

Sales of Generics in Serbia increased by 67% in the year ended December 31, 2017, when applying the previous year's exchange rates compared to the previous period. On an actual basis, over the same period, sales increased by €38.5 million, or 69%, to €94.3 million from €55.8 million. This increase was primarily due to the consolidation of our Serbian subsidiary Velefarm and the shift to a different distribution model for our Generics products. In the year ended December 31, 2017, Generics accounted for 81% of sales in

Serbia, which represents an increase compared to 76% in the previous period. Branded Products accounted for the balance of our sales in each period.

#### *France*

Sales of Generics in France decreased by €3.0 million, or 4%, to €78.9 million in the year ended December 31, 2017, from €81.9 million in the year ended December 31, 2016. This decrease was primarily due to strong price and discount competition. In the year ended December 31, 2017, Generics accounted for 93% of our sales in France, which represents a slight decrease from 96% in the previous period. Branded Products accounted for the balance of our sales in each period.

#### *Vietnam*

Sales in Vietnam decreased by €3.3 million, or 3%, to €102.5 million in the year ended December 31, 2017, from €105.8 million in the year ended December 31, 2016. When applying the previous year's exchange rates, sales of Generics decreased by 2% over the same period. On an actual basis, over the same period sales of Generics in Vietnam decreased by 7%, to €64.6 million from €69.1 million in the previous period. STADA Vietnam was deconsolidated in the last quarter of 2017. The deconsolidation was a result of a contract signed in the fourth quarter of 2017, in the context of the settlement of an arbitration proceeding, pursuant to which STADA agreed to sell its shares in STADA Vietnam by December 31, 2019. In light of the above, as of the year ended December 2017, STADA Vietnam was no longer accounted for as a subsidiary under IFRS 10, but as an associate under IAS 28. As a consequence of the deconsolidation, only sales from January 2017 to November 2017 have been included in the 2017 sales calculations.

In the year ended December 31, 2017, Generics accounted for 63% of sales in Vietnam, a 2% decrease compared to 65% in the previous period. Over the same period, sales from Branded Products increased by 8% when applying the previous year's exchange rates. On an actual basis, over the same period, sales from Branded Products increased by 3% to €37.9 million from €36.7 million in the previous period as a result of unfavorable currency fluctuations of the Vietnamese dong. In the year ended December 31, 2017, Branded Products accounted for 37% of overall sales in Vietnam, a 2% increase compared to 35% in the previous period.

#### *United Kingdom*

In the United Kingdom, sales generated by our Branded Products for the year ended December 31, 2017 increased by 1% when applying the previous year's exchange rates, compared to the previous period. On an actual basis, over the same period, sales of Branded Products decreased by 6% to €165.3 million from €175.4 million, primarily due to a sustained depreciation of the British pound sterling against the euro in the wake of the Brexit referendum as well as a weak cough and cold season in the first half of 2017. This decrease in sales was partly offset by sales contributions from the recently acquired company Natures Aid Limited. Branded Products accounted for 88% of total sales in the UK market in each of the years ended December 31, 2017 and 2016. Generics accounted for the balance of our sales in each period.

#### *Cost of Sales*

Cost of sales increased by €72.7 million, or 7%, to €1,178.0 million in the year ended December 31, 2017, from €1,105.3 million in the year ended December 31, 2016. This increase was proportionally lower than the increase in sales, particularly due to improvements in purchasing conditions and positive currency translation effects.

#### *Selling Expenses*

Selling expenses increased by €26.2 million, or 5%, to €514.5 million in the year ended December 31, 2017, from €488.3 million in the year ended December 31, 2016. This increase was primarily due to higher marketing and sales expenses in the Branded Products division, particularly in Russia and Italy, as well as in the Generics and Branded Products divisions in the Serbian subgroup.

#### *General and Administrative Expenses*

General and administrative expenses increased by €17.0 million, or 9%, to €199.7 million in the year ended December 31, 2017, from €182.7 million in the year ended December 31, 2016. The general and



administrative expenses as a percentage of consolidated sales was 9% in the year ended December 31, 2017, remaining unchanged with respect to the corresponding period in 2016.

#### *Research and Development Expenses*

Research and development expenses increased by €2.4 million, or 4%, to €67.5 million in the year ended December 31, 2017, from €65.1 million in the year ended December 31, 2016.

#### *Other Income*

Other income increased by €22.0 million to €41.3 million in the year ended December 31, 2017, from €19.3 million in the year ended December 31, 2016.

#### *Other Expenses*

Other expenses increased by €64.3 million to €203.3 million in the year ended December 31, 2017, from €138.9 million in the year ended December 31, 2016. This increase was primarily due to an increase in consulting expenses in connection with the Takeover Offer as well as write-downs on trade accounts receivable.

#### *Financial Results*

Financial results increased by €6.2 million, or 12%, to a net expense of €44.5 million in the year ended December 31, 2017, from a net expense of €50.7 million in the year ended December 31, 2016.

This improvement is primarily the result of lower financial expenses, which decreased to €50.5 million in the year ended December 31, 2017, from €54.1 million in the year ended December 31, 2016.

As of the balance sheet date of December 31, 2017, the weighted average interest rate for non-current liabilities was approximately 26% per annum compared to approximately 2% per annum in the previous year.

This strong increase in the weighted average interest is solely due to the high interest rates in Argentina as the non-current financial liabilities reported as of December 31, 2017 in the STADA Group relate exclusively to the Argentinian company Laboratorio Vannier S.A. As for the current financial liabilities, our weighted average interest rate was approximately 2% per annum as of December 31, 2017, and therefore lower than the approximately 3% per annum of average interest rate as of December 31, 2016.

#### *Income Taxes*

Income taxes increased by €21.0 million, or 66%, to €53.0 million in the year ended December 31, 2017, from €31.9 million in the year ended December 31, 2016. Our reported effective tax rate increased to 36% from 25% in the previous period, mainly due to a changed allocation of pre-tax earnings with a significant increase in earnings contributions in Germany and Russia, as well as to negative effects on the tax rate arising from the deconsolidation of STADA Vietnam.

#### *Key Earnings Figures*

Overall, our results of operations in the year ended December 31, 2017 benefited from favorable trends in the Belgian and Italian Generics division and the Russian Branded Products division. However, special items (such as consulting expenses related to the STADA Acquisition) in an amount of €130.0 million before taxes and €110.3 million after taxes were recorded in 2017, which negatively affected our key earnings figures for the 2017 financial year; see the discussion under “—Special Items.”

#### *Operating Profit and Adjusted Operating Profit*

Reported operating profit increased by €14.2 million, or 8%, to €192.3 million in the year ended December 31, 2017, from €178.1 million in the year ended December 31, 2016. The increase in reported operating profit was primarily due to a higher operating profit in the Belgian Generics division following the termination of the distribution agreement with our former Belgian distribution partner, Omega Pharma N.V. and improved operating profit in the German and Spanish Generics division as well as strong sales development and a favorable currency translation effect in Russia. As a result of the aforementioned improvements in operating profit in Belgium, Germany, Spain and Russia, adjusted operating profit

increased by 9% to €322.3 million in the year ended December 31, 2017, from €294.4 million in the previous period.

Reported operating profit in the Generics division increased by €38.0 million, or 19%, to €233.2 million in the year ended December 31, 2017, from €195.2 million in the year ended December 31, 2016. This increase was attributable to improved operating profit in the Belgian, German and Spanish Generics division as described above. Adjusted operating profit in the Generics division increased by 16% to €248.8 million in December 31, 2017, from €214.2 million in the previous period. The adjusted operating profit margin of Generics was 18% in the year ended December 31, 2017, compared to 17% in the previous period. Over the same period, the reported operating profit margin in our Generics division was 17%, compared to 15% in the previous period.

Reported operating profit in the Branded Products division increased by €18.0 million, or 22%, to €99.3 million in the year ended December 31, 2017, from €81.4 million in the year ended December 31, 2016. This increase was primarily due to a significant increase of sales volumes and favorable currency translation effects in Russia. Adjusted operating profit in the Branded Products division increased by 2% to €156.2 million in December 31, 2017, from €152.8 million in the previous period. This increase was also due to the aforementioned development of reported operating profit in Russia. The adjusted operating profit margin of Branded Products was 16% in the year ended December 31, 2017, compared to 18% in the previous period. Over the same period, the reported operating profit margin of our Branded Products division remained stable in both periods at 10%.

#### *Net Income and Adjusted Net Income*

Reported net income decreased slightly by €0.6 million, or 1%, to €85.3 million in the year ended December 31, 2017, from €85.9 million in the year ended December 31, 2016. In addition to the positive effects on the operating profit mentioned above, this slight decrease was also driven by a higher tax rate which was mainly due to a changed geographical distribution of Group earnings in 2017, with significant increases in the earnings contributions in Germany and Russia. In addition, there were negative effects on tax rate from the deconsolidation of STADA Vietnam. The increase in adjusted net income to €195.6 million, or 10%, in the year ended December 31, 2017, compared to €177.3 million in the year ended December, 2016, was primarily the result of a positive development in operating profit in Belgium, Germany, Spain and Russia.

#### *EBITDA and Management Adjusted EBITDA*

EBITDA slightly increased by €2.3 million, or 1%, to €363.8 million in the year ended December 31, 2017, from €361.5 million in the year ended December 31, 2016. This increase was mainly due to an increase in operating profit in Belgium, Germany, Spain and Russia, which was partly offset by consulting expenses in connection with the Takeover Offer. Management Adjusted EBITDA increased by 9% to €433.9 million in the year ended December 31, 2017, from €398.0 million in the previous period, mainly due to the aforementioned increase in operating profit in Belgium, Germany, Spain and Russia.

EBITDA in our Generics division increased by €36.8 million, or 14%, to €292.5 million in the year ended December 31, 2017, from €255.8 million in the year ended December 31, 2016. This increase was due to higher operating profit in Belgium, Germany and Spain. The EBITDA margin in Generics was 21% in the year ended December 31, 2017, compared to 20% in the previous period. Over the same period, Management Adjusted EBITDA in our Generics division increased by 14% to €302.8 million from €264.9 million. This increase was primarily due to a higher operating profit in Belgium, Germany and Spain. The Management Adjusted EBITDA margin in our Generics division was 22% in the year ended December 31, 2017, compared to 21% in the previous period.

EBITDA in our Branded Products division increased by €18.7 million, or 10%, to €204.9 million in the year ended December 31, 2017, from €186.2 million in the year ended December 31, 2016. This increase was mainly due to an increased operating profit in Russia. The EBITDA margin of Branded Products was 22% in the year ended December 31, 2017, remaining unchanged with respect to the corresponding period in 2016. Management Adjusted EBITDA in our Branded Products division increased by 3% to €207.4 million in the year ended December 31, 2017, from €200.7 million in the previous period. This increase was mainly due to the aforementioned increase in operating profit in Russia. The Management Adjusted EBITDA margin in our Branded Products division was 22%, compared to 23% in the previous period.

## Special Items

When adjusting for special items, earnings before taxes would have been higher by €130.0 million in the year ended December 31, 2017, compared to our reported results for the same period.

The following tables provide an overview of our special items and their impact on certain line items for the years ended December 31, 2017 and 2016:

(in € million)	STADA					2017 adjusted
	2017 reported	Impairments/ write-ups on non-current assets	Effects from purchase price allocations and product acquisitions <sup>(1)</sup>	Consultancy services in connection with the takeover process	Other <sup>(2)</sup>	
		(unaudited, unless otherwise stated)				
Operating profit . . . . .	192.3 <sup>(3)</sup>	46.4	9.4	45.0	29.2	322.3
Result from investments measured at equity . . . . .	2.3 <sup>(3)</sup>	—	—	—	—	2.3
Investment income . . . . .	(0.0) <sup>(3)</sup>	—	—	—	—	(0.0)
<b>Earnings before interest and taxes (EBIT) . . . . .</b>	<b>194.6</b>	<b>46.4</b>	<b>9.4</b>	<b>45.0</b>	<b>29.2</b>	<b>324.6</b>
Financial income and expenses . . . . .	46.8	—	—	—	0.0	46.8
<b>Earnings before taxes (EBT) . . . . .</b>	<b>147.7<sup>(3)</sup></b>	<b>46.4</b>	<b>9.4</b>	<b>45.0</b>	<b>29.2</b>	<b>277.8</b>
Income taxes . . . . .	(53.0) <sup>(3)</sup>	(8.8)	(0.9)	(12.8)	2.1	(73.5)
Result distributable to non-controlling shareholders . . . . .	9.4 <sup>(3)</sup>	0.2	(0.9)	—	—	8.7
<b>Result distributable to shareholders of STADA Arzneimittel AG (net income) . . . . .</b>	<b>85.3</b>	<b>37.4</b>	<b>9.4</b>	<b>32.2</b>	<b>31.3</b>	<b>195.6</b>
Earnings before interest and taxes (EBIT) . . . . .	194.6	46.4	9.4	45.0	29.2	324.6
Balance from depreciation/ amortization and impairments/ write-ups of intangible assets (including goodwill), property, plant and equipment and financial assets . . . . .	169.2 <sup>(3)</sup>	(46.4)	(13.6)	—	—	109.3
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA/Management Adjusted EBITDA) . . . . .</b>	<b>363.8<sup>(3)</sup></b>	<b>—</b>	<b>(4.2)<sup>(3)</sup></b>	<b>45.0<sup>(3)</sup></b>	<b>29.2<sup>(3)</sup></b>	<b>433.9<sup>(3)</sup></b>

(1) In 2013, we completed several acquisitions (including the acquisition of Thornton & Ross in the United Kingdom, as well as our acquisition of control over the Vietnamese companies Pymepharco and STADA Vietnam) which resulted in purchase price allocations as well as measurement effects. Taking 2013 as a baseline, this adjustment adds back additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions.

(2) Relates to miscellaneous extraordinary income and expenses, among other things, from severance payments for former members of the Executive Board and restructuring measures, the deconsolidation effects of a Vietnamese subsidiary and deferred taxes within the income statement.

(3) Represents audited financial data as of and for the year ended December 31, 2017.

(in € million)	2016 reported	Impairments/ write-ups on non-current assets	Effects from purchase price allocations and product acquisitions <sup>(1)</sup>	Currency effects CIS / Eastern Europe <sup>(2)</sup>	Measurement of derivative financial instruments	Portfolio adjustments / Restructuring expenses <sup>(3)</sup>	Other <sup>(4)</sup>	2016 adjusted
			(unaudited, unless otherwise stated)					
Operating profit . . . . .	178.1 <sup>(5)</sup>	65.5	11.4	9.1	—	28.2	2.0	294.4
Result from investments measured at equity . . . . .	0.7 <sup>(5)</sup>	—	—	—	—	—	—	0.7
Investment income . . . . .	0.0 <sup>(5)</sup>	—	—	—	—	—	—	0.0
<b>Earnings before interest and taxes (EBIT) . . . . .</b>	<b>178.9</b>	<b>65.5</b>	<b>11.4</b>	<b>9.1</b>	<b>—</b>	<b>28.2</b>	<b>2.0</b>	<b>295.1</b>
Financial income and expenses . . . . .	51.4	—	—	—	(0.5)	—	—	50.9
<b>Earnings before taxes (EBT) . . . . .</b>	<b>127.4<sup>(5)</sup></b>	<b>65.5</b>	<b>11.4</b>	<b>9.1</b>	<b>0.5</b>	<b>28.2</b>	<b>2.0</b>	<b>244.2</b>
Income taxes . . . . .	(31.9) <sup>(5)</sup>	(12.8)	(3.1)	(1.1)	(0.1)	(5.3)	(4.0)	(58.4)
Result distributable to non-controlling shareholders . . . . .	9.6 <sup>(5)</sup>	0.5	(1.6)	—	—	—	—	8.5
<b>Result distributable to shareholders of STADA Arzneimittel AG (net income)</b>	<b>85.9<sup>(5)</sup></b>	<b>52.2</b>	<b>9.9</b>	<b>8.0</b>	<b>0.4</b>	<b>22.9</b>	<b>(2.0)</b>	<b>177.3</b>
<b>Earnings before interest and taxes (EBIT) . . . . .</b>	<b>178.9</b>	<b>65.5</b>	<b>11.4</b>	<b>9.1</b>	<b>—</b>	<b>28.2</b>	<b>2.0</b>	<b>295.1</b>
Balance from depreciation/ amortization and impairments/ write-ups of intangible assets (including goodwill), property, plant and equipment and financial assets . . . . .	182.7 <sup>(5)</sup>	(65.5)	(14.3)	—	—	—	—	102.9
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA/Management Adjusted EBITDA) . . . . .</b>	<b>361.5<sup>(5)</sup></b>	<b>—</b>	<b>(2.9)<sup>(5)</sup></b>	<b>9.1<sup>(5)</sup></b>	<b>—</b>	<b>28.2</b>	<b>2.0</b>	<b>398.0<sup>(5)</sup></b>

- (1) In 2013, we completed several acquisitions (including the acquisition of Thornton & Ross in the United Kingdom, as well as our acquisition of control over the Vietnamese companies Pympharco and STADA Vietnam) which resulted in purchase price allocations as well as measurement effects. Taking 2013 as a baseline, this adjustment adds back additional scheduled depreciation and other measurement effects due to purchase price allocations as well as significant product acquisitions.
- (2) Relates to transactional foreign exchange losses recorded in the income statement that we recognized due to the fluctuation against the euro of the Russian ruble and other major currencies in the CIS region / Eastern Europe. As of January 1, 2017, STADA has discontinued this adjustment in its reporting, as it believes the significant fluctuations experienced in more-recent periods have returned to a more normal level.
- (3) Relates to miscellaneous extraordinary expenses, among other things, for the restructuring of the German business, the termination of further parts of the aesthetics business and expenses related to the deconsolidation of the Egyptian subsidiary as well as the termination of the distribution agreement with Omega (the “Omega Distribution Agreement”).
- (4) Relates to miscellaneous extraordinary income and expenses, among other things, from a milestone payment we received in the United Kingdom, tax rate changes in the United Kingdom and a severance payment for the previous chairman of the Executive Board.
- (5) Represents audited financial data as of and for the year ended December 31, 2016.

The impact of special items on earnings before taxes in the year ended December 31, 2017 included adjustments of (i) €46.4 million in impairments/write-ups on non-current assets, (ii) €9.4 million of purchase price allocations and product acquisitions, primarily due to additional scheduled depreciation and other adjustments due to purchase price allocations, as well as significant product acquisitions compared to the levels in the year ended December 31, 2013, (iii) €45.0 million in consultancy services in connection with the Takeover Offer and (iv) €29.2 million in other special items, mainly including severance payments for former members of the Executive Board and restructuring measures, the deconsolidation effects of a Vietnamese subsidiary and deferred taxes within the income statement.

## Liquidity and Capital Resources

### Overview

Our principal sources of liquidity on an ongoing basis are our operating cash flows and financing cash flows from drawings under our Revolving Credit Facility and factoring facilities. The availability of the Senior Secured Credit Facilities, including the Revolving Credit Facility, are subject to certain conditions.

Our ability to generate operating cash flows depends on our operating performance, which in turn depends to some extent on general economic, financial, industry, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in “*Risk Factors*.” We believe that, based on our level of operations as reflected in our results of operations for the nine months ended September 30, 2019, our cash flows from operating activities, cash on hand and the availability of borrowings under our Revolving Credit Facility and factoring facilities will be sufficient to fund our operations and capital expenditures and to service our debt for at least the next twelve months. The ability of our subsidiaries to pay dividends and make other payments to us may be restricted by, among other things, legal prohibitions on such payments or otherwise distributing funds to us, including for the purpose of servicing debt. Losses or other events could further reduce the net equity and distributable reserves of our subsidiaries.

We anticipate that we will be highly leveraged for the foreseeable future and our ability to generate future financing cash flows will be limited by the Indentures and the Senior Secured Credit Facilities, which may have important negative consequences for you. See “*Risk Factors*,” “*Description of the Senior Secured Notes—Certain Covenants—Limitation on Indebtedness*” and “*Description of Certain Financing Arrangements*.” In addition, any additional indebtedness that we do incur could reduce the amount of our cash flow available to make payments on our then existing indebtedness, including under the Additional Notes offered hereby, and increase our leverage.

The proceeds from the Offering will be used as set forth under “*Use of Proceeds*.”

### **Cash Flows**

The following table summarizes the cash flows of STADA on a consolidated basis for the years ended December 31, 2016, 2017 and 2018 and for the Senior Notes Issuer on a consolidated basis for the nine months ended September 30, 2018 and 2019.

(in € million)	STADA			Senior Notes Issuer	
	Year ended December 31,			Nine months ended	
	2016 <sup>(1)</sup>	2017	2018	2018	2019
		(audited)		(unaudited)	
Cash flow from operating activities . . . . .	333.5	262.9	320.3	196.4	224.1
Cash flow from investing activities . . . . .	(171.8)	(122.6)	(300.3)	(252.8)	(188.6)
Cash flow from financing activities . . . . .	54.3	(227.8)	79.7	35.7	(186.8)
<b>Changes in cash and cash equivalents . . . . .</b>	<b>216.1</b>	<b>(87.6)</b>	<b>99.7</b>	<b>(20.8)</b>	<b>(151.3)</b>
Balance at beginning of the period . . . . .	143.2	352.6	243.2	474.0	360.1
Changes in cash and cash equivalents due to the scope of consolidation . . . . .	(3.4)	(12.9)	(0.0)	0.2	(4.3)
Changes in cash and cash equivalents due to exchange rates . . . . .	(3.3)	(8.9)	0.9	(0.3)	1.3
<b>Balance at end of the period . . . . .</b>	<b>352.6</b>	<b>243.2</b>	<b>343.8</b>	<b>453.1</b>	<b>205.8</b>

(1) The information on investing and financing cash flows for the year ended December 31, 2016 has been derived from the comparative information in the STADA Financial Statements as of and for the year ended December 31, 2017, as opposed to the STADA Financial Statements as of and for the year ended December 31, 2016. This is due to a change in the presentation of cash outflows for finance leases.

### **Nine Months Ended September 30, 2019, Compared with Nine Months Ended September 30, 2018**

#### **Cash Flow from Operating Activities**

Cash flow from operating activities increased by €27.7 million, or 14%, to a cash inflow of €224.1 million in the nine months ended September 30, 2019, from a cash inflow of €196.4 million in the nine months ended September 30, 2018. This increase was primarily due to a significant increase in EBITDA. In addition, there were cash inflows in connection with trade payables compared with significant cash outflows in the respective period of the previous year. In addition, lower use from deferrals for healthcare insurance settlements was recorded. On the other hand, there were significantly higher interest payments compared to the respective period of the previous year and significant cash outflows in connection with inventories and trade receivables.



### Cash Flow from Investing Activities

Cash flow from investing activities decreased by €64.3 million, or 25%, to a cash outflow of €188.6 million in the nine months ended September 30, 2019, from a cash outflow of €252.8 million in the nine months ended September 30, 2018. This decrease was primarily due to significantly lower payments for investments in intangible assets of €135.8 million in the nine months ended September 30, 2019, primarily relating to the acquisition of five skincare brands and a pediatric cough remedy from GlaxoSmithKline through our British subsidiary Thornton & Ross, compared to €246.1 million in the nine months ended September 30, 2018, primarily relating to the acquisition of the rights to Nizoral for the EMEA region as well as the reacquisition of the trademark rights to Ladival.

### Cash Flow from Financing Activities

Cash flow from financing activities changed by €222.5 million, or 624%, to a cash outflow of €186.8 million in the nine months ended September 30, 2019, from a cash inflow of €35.7 million in the nine months ended September 30, 2018. This decrease was primarily due to significantly lower borrowings of funds compared to the nine months ended September 30, 2018. On the other hand, there were also lower repayments of financial liabilities. In addition, during the nine months ended September 30, 2018, certain creditors of STADA Arzneimittel AG became entitled to prematurely terminate certain bonds, promissory note loans and bank loans due to the Takeover Offer in 2017.

### Year Ended December 31, 2018, Compared with Year Ended December 31, 2017

#### Cash Flow from Operating Activities

Cash flow from operating activities increased by €57.4 million, or 22%, to a cash inflow of €320.3 million in the year ended December 31, 2018, from a cash inflow of €262.9 million in the year ended December 31, 2017. This increase was primarily due to a significant increase in gross cash flow as a result of a strong annual result and lower income tax payments. In addition, there were significantly lower cash outflows in connection with inventories and slight cash inflows in connection with trade accounts receivable compared with significant cash outflows in the previous year. In addition, significantly lower use from deferrals for healthcare insurance settlements was recorded. On the other hand, there were significantly higher cash outflows from the settlement of trade accounts payable, which were high at the end of the previous year.

#### Cash Flow from Investing Activities

Cash flow from investing activities increased by €177.7 million, or 145%, to a cash outflow of €300.3 million in the year ended December 31, 2018, from a cash outflow of €122.6 million in the year ended December 31, 2017. This increase was primarily due to payments in the amount of €280.3 million for investments in intangible assets, compared to €70.2 million in the previous year, primarily relating to the acquisition of the rights to the Nizoral for the EMEA region as well as the reacquisition of the trademark rights to Ladival. In addition, there were net inflows from the acquisition of the majority interest in BIOCEUTICALS Arzneimittel AG, as the company's cash and cash equivalents acquired at the time of acquisition exceeded the purchase price.

In 2018, we spent a total of €236.2 million on acquisitions as part of business combinations and significant investments in intangible assets for the short-term expansion of our product portfolio, compared to €42.3 million in the previous year. Investments in other intangible assets amounted to €24.9 million in the year ended December 31, 2018, compared to €30.7 million in the previous year. These comprise, in particular, insignificant individual payments for the development and acquisition of dossier submissions for active substance approvals.

Payments for investments in property, plant and equipment in 2018 amounted to €48.1 million, compared to €55.0 million in the previous year. This also includes investments in production sites, manufacturing facilities and test laboratories, for which additions amounting to a total of €22.8 million were recorded in the year ended December 31, 2018, compared to €36.3 million in the previous year. Payments for investments in financial assets in the year ended December 31, 2018 were €0.3 million.

As a result of disposals, we recorded an inflow of payments totaling €9.2 million in cash flow from investing activities in financial year 2018, compared to €5.7 million in the previous year. Income from the disposal of consolidated companies related to dividends of STADA Vietnam measured at equity, which are partial payments in connection with the agreement concluded in the fourth quarter of 2017 for the sale of STADA's shares as of December 31, 2019.

#### Cash Flow from Financing Activities

Cash flow from financing activities increased by €307.5 million, or 135%, to a cash inflow of €79.7 million in the year ended December 31, 2018, from a cash outflow of €227.8 million in the year ended December 31, 2017. This increase was primarily due to a significant increase in financial liabilities due to the loans granted to STADA by the Senior Secured Notes Issuer. This was offset by higher repayments of financial liabilities. This resulted in particular from the creditors of STADA Arzneimittel AG becoming entitled, in accordance with the financing conditions, to prematurely terminate bonds, promissory note loans and bank loans due to the takeover in 2017. In this context, a partial amount of €360.2 million was made due prematurely in the first quarter of 2018. In the second quarter of 2018 we scheduled the repayment of a bond in the amount of €347.1 million.

*Year Ended December 31, 2017, Compared with Year Ended December 31, 2016*

#### Cash Flow from Operating Activities

Cash flow from operating activities decreased by €70.6 million, or 21%, to a cash inflow of €262.9 million in the year ended December 31, 2017, from a cash inflow of €333.5 million in the year ended December 31, 2016. This decrease was primarily due to significantly higher cash outflows related to inventories, trade receivables and trade payables compared to the previous year. The cash-effective increase in inventories was attributable, among other things, to additional inventories of our subsidiary ALIUD PHARMA, which were necessary to ensure compliance with health insurance tenders. Trade receivables were also strongly affected by declining factoring volumes.

#### Cash Flow from Investing Activities

Cash flow from investing activities decreased by €49.1 million, or 29%, to a cash outflow of €122.6 million in the year ended December 31, 2017, from a cash outflow of €171.8 million in the year ended December 31, 2016. This decrease was mainly due to lower payments for investments in intangible assets, which amounted to €70.2 million in the year ended December 31, 2017, compared to €76.1 million in the previous year. In addition, such decrease was due to lower payouts in connection with business combinations. In 2017, there were payouts related to the acquisition of Velexfarm in Serbia, Laboratorio Vannier in Argentina and a Serbian product portfolio. In the previous year, there were significantly higher payouts for business combinations, mainly related to the acquisition of a product portfolio in Serbia, the acquisition of the British company Natures Aid and the Argentinian Laboratorio Vannier.

#### Cash Flow from Financing Activities

Cash flow from financing activities changed by €282.2 million to a cash outflow of €227.8 million in the year ended December 31, 2017, from a cash inflow of €54.3 million in the year ended December 31, 2016. This change was primarily due to the repayment of existing borrowings and significantly lower new borrowings in the year ended December 31, 2017, compared to the same period in the previous year. Repayments and new borrowings in the year ended December 31, 2017 related to, among other things, redemptions of bonds, promissory note loans and bank loans as a result of the STADA Acquisition. In this context, the Senior Secured Notes Issuer, as part of the Takeover Offer, agreed to provide STADA with financing for such repayments and, in the year ended December 31, 2017, a loan in the amount of €40.0 million was granted by the Senior Secured Notes Issuer and the resulting cash inflows were allocated to cash flow from financing activities.

## Net Working Capital

Net working capital as defined by us consists of inventories and trade receivables less trade payables. See “Presentation of Financial Information—Non-GAAP Financial Measures.” The following table summarizes our change in net working capital in terms of cash flows for the periods indicated:

(in € million)	STADA			Senior Notes Issuer	
	Year ended December 31,			Nine months ended	
	2016	2017	2018	2018	2019
	(audited, except otherwise stated)			(unaudited)	
(Increase)/decrease in inventories . . . . .	(18.0)	(64.6)	(44.9)	(18.2)	(96.3)
(Increase)/decrease in trade accounts receivable . . . . .	1.2	(31.5)	0.5	12.2	(17.7)
Increase/(decrease) in trade accounts payable . . . . .	13.6 <sup>(2)</sup>	(27.0)	(51.5)	(70.6)	20.4
<b>Net change in working capital<sup>(1)</sup> . . . . .</b>	<b>(3.2)</b>	<b>(123.1)</b>	<b>(95.9)</b>	<b>(76.6)</b>	<b>(93.6)</b>

(1) Represents unaudited financial data as of and for the years ended December 31, 2016, 2017 and 2018.

(2) The information on increase/(decrease) in trade accounts payable for the year ended December 31, 2016 has been derived from the comparative information in the STADA Financial Statements as of and for the year ended December 31, 2017, compared to the STADA Financial Statements as of and for the year ended December 31, 2016.

In the nine months ended September 30, 2019, our net change in working capital was a cash outflow of €93.6 million, compared to a cash outflow of €76.6 million in the nine months ended September 30, 2018. The change in inventories accounted for a cash outflow of €96.3 million and was primarily due to a cash-effective increase in the inventories of our subsidiaries in Russia, the United Kingdom, Germany and Serbia, due to stocking up for the flu season and safety stock. The change in trade accounts receivable accounted for a cash outflow of €17.7 million, driven by a cash-effective increase in trade receivables, mainly of our subsidiaries in Belgium and Spain, partly compensated for by a significant decrease in trade receivables of our subsidiaries in Russia. The change in trade accounts payable accounted for a cash inflow of €20.4 million and resulted primarily from our subsidiaries in the United Kingdom, partly due to reporting date effects.

In the year ended December 31, 2018, our net change in working capital was a cash outflow of €95.9 million, compared to a cash outflow of €123.1 million in the year ended December 31, 2017. The change in inventories accounted for a cash outflow of €44.9 million and was primarily due to a cash-effective increase in the inventories of our subsidiaries in Russia and Serbia. The change in trade accounts receivable accounted for a cash inflow of €0.5 million, driven by a decrease in overall factoring volume, contrary there was a decrease in trade receivables, especially in our subsidiaries in Belgium, Serbia, Germany and France. The change in trade accounts payable accounted for a cash outflow of €51.5 million and resulted primarily due to the settlement of significant invoices of our German companies, especially STADA, for consultancy services, as well as from reporting date effects, especially in Serbia.

In the year ended December 31, 2017, our net change in working capital was a cash outflow of €123.1 million. The change in inventories accounted for a cash outflow of €64.6 million and was primarily due to additional inventories of our subsidiary ALIUD PHARMA, which were necessary to ensure compliance with health insurance tenders. The change in trade accounts receivable accounted for a cash outflow of €31.5 million, driven by decreasing factoring volumes. The change in trade accounts payable accounted for a cash outflow of €27.0 million and resulted primarily from reporting date effects, especially in Russia.

In the year ended December 31, 2016, our net change in working capital was a cash outflow of €3.2 million. The change in inventories accounted for a cash outflow of €18.0 million and was primarily due to a cash-effective increase in the inventories of our subsidiaries in Russia and Serbia as a consequence of increasing safety stock of several substances. The change in trade accounts receivable accounted for a cash inflow of €1.2 million, driven by increased factoring volume compared to year-end 2015 and partly offset by strong sales at year end, especially in Russia. The change in trade accounts payable accounted for a cash inflow of €13.6 million and resulted primarily from reporting date effects, especially in Italy.

## Capital Expenditures

Our capital expenditures mainly consist of investments in maintenance (including replacements) and growth expenditures (which relate to our expansion into new markets and increased penetration of existing markets). We finance our capital expenditures with cash flow from operating activities and cash flow from financing activities.

The table below sets forth our capital expenditures based on cash flows for the periods indicated.

(in € million)	STADA			Senior Notes Issuer	
	Year ended December 31,			As of September 30,	
	2016	2017	2018	2018	2019
	(audited)			(unaudited)	
Significant investments and acquisitions <sup>(1)</sup>	86.3	42.3	236.2	205.3	109.4
Adjusted capital expenditures <sup>(2)</sup>	96.5	86.0	73.2	54.3	90.6
<b>Capital Expenditures</b>	<b>182.8<sup>(3)</sup></b>	<b>128.3</b>	<b>309.4</b>	<b>259.6</b>	<b>200.0</b>

(1) Significant investments and acquisitions relate to investments in intangible assets and business combinations according to IFRS 3.

(2) Adjusted capital expenditure includes maintenance, other investments in tangible assets and financial assets as well as other minor investments in various intangible assets.

(3) The information on capital expenditures for the year ended December 31, 2016 has been derived from the comparative information in the STADA Financial Statements as of and for the year ended December 31, 2017, compared to the STADA Financial Statements as of and for the year ended December 31, 2016.

Capital expenditures for significant investments and acquisitions decreased by €95.9 million, or 47%, to €109.4 million in the nine months ended September 30, 2019, from €205.3 million in the nine months ended September 30, 2018. This decrease was primarily due to significantly lower payments for investments in intangible assets in the nine months ended September 30, 2019, primarily relating to the acquisition of five skincare brands and a pediatric cough remedy from GlaxoSmithKline through our British subsidiary Thornton & Ross, compared to the nine months ended September 30, 2018, primarily relating to the acquisition of the rights to Nizoral for the EMEA region as well as the reacquisition of the trademark rights to Ladival. Adjusted capital expenditures increased by €36.3 million, or 67%, to €90.6 million in the nine months ended September 30, 2019, from €54.3 million in the nine months ended September 30, 2018. This increase was mainly driven by major investments in tangible assets in relation to the expansion of production facilities in our subsidiaries in Vietnam, Serbia and the United Kingdom.

Capital expenditures for significant investments and acquisitions increased by €193.9 million to €236.2 million in the year ended December 31, 2018, from €42.3 million in the year ended December 31, 2017. This increase was primarily due to significantly higher payments for investments in intangible assets, especially relating to the acquisition of the rights to Nizoral for the EMEA region and the reacquisition of the rights to Ladival. In the context of business combinations, there were net inflows from the acquisition of a majority interest in BIOCEUTICALS Arzneimittel AG, as the company's cash and cash equivalents acquired at the time of acquisition exceeded the purchase price. Adjusted capital expenditures decreased by €12.8 million, or 15%, to €73.2 million in the year ended December 31, 2018, from €86.0 million in the year ended December 31, 2017. This decrease was mainly driven by lower expenditures for tangible assets.

Capital expenditures for significant investments and acquisitions decreased by €44.0 million, or 51%, to €42.3 million for the year ended December 31, 2017, from €86.3 million for the year ended December 31, 2016. This decrease was mainly due to significantly lower payments relating to business combinations. In 2017, there were payouts related to the acquisition of Velefarm in Serbia, the acquisition of Laboratorio Vannier in Argentina and a Serbian product portfolio. In the previous year, there were significantly higher payouts for business combinations, mainly related to the acquisition of a product portfolio in Serbia, the acquisitions of the Natures Aid and the Laboratorio Vannier. Adjusted capital expenditures decreased by €10.5 million, or 11%, to €86.0 million for the year ended December 31, 2017, from €96.5 million for the year ended December 31, 2016. This decrease was driven by lower expenditures for minor intangible assets.

## Contractual Obligations

The table below summarizes our material contractual obligations as of September 30, 2019, after giving pro forma effect to the Transactions as if they had occurred on such date (subject to the assumptions set forth in “*Use of Proceeds*” and excluding future interest payments).

(in € million, unless currency otherwise indicated)	Total	Payments due by period		
		Less than 1 year	1–5 years	More than 5 years
		(unaudited)		
<i>Fixed interest rate instruments</i>				
Additional Notes offered hereby <sup>(1)</sup> . . . . .		—	—	
2017 Senior Notes <sup>(2)</sup> . . . . .	340.0	—	—	340.0
2018 Senior Notes <sup>(3)</sup> . . . . .	250.0	—	—	250.0
Existing Senior Secured Notes <sup>(4)</sup> . . . . .	735.0	—	—	735.0
Lease commitments . . . . .	51.3	19.0	N/A	N/A
<i>Variable interest rate instruments</i>				
Term Loan Facility B1 <sup>(5)</sup> . . . . .	405.6	—	405.6	—
Term Loan Facility B2 <sup>(6)</sup> . . . . .	235.0	—	235.0	—
Term Loan Facility C (EUR) <sup>(7)</sup> . . . . .	759.4	—	759.4	—
Term Loan Facility C (GBP) <sup>(7)</sup> . . . . .	300.3	—	300.3	—
Term Loan Facility D <sup>(8)</sup> . . . . .	705.0	—	705.0	—
Term Loan Facility E <sup>(9)</sup> . . . . .	—	—	—	—
Revolving Credit Facility <sup>(10)</sup> . . . . .	—	—	—	—
<b>Total</b> . . . . .				

(1) Represents the aggregate principal amount of Additional Notes.

(2) Represents the aggregate principal amount of the 2017 Senior Notes.

(3) Represents the aggregate principal amount of the 2018 Senior Notes.

(4) Represents the aggregate principal amount of the Existing Senior Secured Notes.

(5) As of September 30, 2019, Term Loan Facility B1 has been drawn in full. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*.”

(6) As of September 30, 2019, Term Loan Facility B2 has been drawn in full. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*.”

(7) As of September 30, 2019, Term Loan Facility C has been drawn in full. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*.” The sterling amount drawn was converted into euro at an assumed exchange rate.

(8) As of September 30, 2019, Term Loan Facility D has been drawn in full. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*.”

(9) Facility E will be established in connection with, *inter alia*, the Takeda Acquisition and the Walmark Acquisition. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*.”

(10) The Revolving Credit Facility provides for borrowings of up to €400.0 million. As of September 30, 2019, the Revolving Credit Facility remained undrawn in full. The Revolving Credit Facility may be drawn to fund value-added tax levied in connection with the Acquisitions. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*.”

## Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition or results of operations. We license certain of our Generics products, none of which individually represents a material portion of our business. We record provisions for estimated warranty claims in connection with product returns, based on historical data. As of December 31, 2018, our provision in respect of warranties was €17.4 million. In the periods under discussion, the majority of our product returns were due to returns of excess stock by certain customers in our Branded Products division. We also regularly enter into guarantees of indebtedness drawn by other entities within our Group. In addition, as of September 30, 2019, we recorded €3.3 million primarily relating to payments under short-term lease commitments and leases relating to low-value assets that were not recorded on the Senior Notes Issuer’s balance sheet.



Furthermore, on July 18, 2018, in the context of the STADA Acquisition, we and certain of our subsidiaries organized in Belgium (Eurogenerics SA), England and Wales (Internis Pharmaceuticals Limited and Thornton & Ross Limited), the Netherlands (Centrafarm B.V.), Belgium (Eurogenics S.A.) the Republic of Ireland (Clonmel Healthcare Limited) and Northern Ireland (Crosspharma Limited), granted guarantees in favor of the Existing Notes and our obligations under our Senior Secured Credit Agreement. Additionally on such date, are of our subsidiaries organised in Spain (Laboratorio STADA, S.L.U.), granted guarantees in favor of our obligations under our Senior Secured Credit Agreement.

Furthermore, on 2019, in the context of our ongoing obligations under our Senior Secured Credit Agreement, one of our subsidiaries organised in England and Wales (Natures Aid Ltd.), granted guarantees in favor of the Existing Notes and our obligations under our Senior Secured Credit Agreement.

**Developments in any of these risk areas could have a material effect on our results.**

Risks that could have a significant influence on the net assets, financial position and results of operations of the Group are described below. Risks are reported in the form of net risks, i.e., risks that include the measures taken to manage the risk, and by the individual segments. If no segment is explicitly referenced, the described risks affect both the Branded Products and the Generics divisions. As yet unknown risks and those that have been assessed as insignificant could also influence net assets, financial position and results of operations.

**Quantitative and Qualitative Disclosures Regarding Financial Risks**

We have exposure to liquidity risk, currency risk, interest rate risk, default risk, transfer price risk, impairment risk and tax risk. Our risk management policies are established to identify and analyze the risks we face. We counter financial risks with finance policy methods and specific risk management. Developments in any of these risk areas could have a material effect on our results. See “*Risk Factors*” and the Financial Statements included elsewhere herein for further details on these and other risks we face.

***Liquidity Risk***

Liquidity risks may result, for example, from the loss of existing cash items, the lack of available credit, reduced access to financing markets or fluctuations in the operational course of our business. The objective of our liquidity management is to ensure the solvency and financial flexibility of our Group at all times through sufficient liquidity reserves and ready access to credit lines. Our financing comprises short-term and long-term borrowings from banks, promissory notes, bonds and factoring. Furthermore, we generate substantial operating cash flows and have access to credit financing from various banks that can be utilized as needed.

***Currency Risk***

Due to our international business operations, we are subject to risks arising from exchange rate fluctuations. These particularly result from fluctuations of the U.S. dollar, Russian ruble, British pound sterling and Serbian dinar in relation to the euro. A currency risk consists of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency, or as a result of exchange rate fluctuation (transaction risk). However, we believe that we can mitigate this risk to a certain extent through natural hedges and the use of derivative financial instruments. These are used to hedge currency risks from operating activities, financial transactions and investments. In the year ended December 31, 2018, we used foreign exchange futures contracts, currency swaps and fair value hedges. The maturity dates of forward contracts are generally set as necessary to match our anticipated cash flows. The remaining terms of the contracts are currently up to one year.

Furthermore, currency risks also exist in relation to the translation of the balance sheet items, as well as the conversion of income and expenses of subsidiaries outside the eurozone (translation risk). In this connection, the current political conflict between Ukraine and Russia, as well as negotiations between the United Kingdom and the European Union over Brexit, could indirectly continue to have a negative influence on exchange rates and our results of operations.

For example, a currency sensitivity analysis (translation risk) on the basis of our foreign currency items as of December 31, 2018 showed that in financial year 2018, an appreciation or devaluation of the functional currency compared with the Russian ruble by 10% would have led to a change in our EBITDA of approximately €0.2 million. At the same time, an appreciation or devaluation of the functional currency in

relation to the British pound sterling of 10% would have led to a change in our EBITDA of approximately €0.3 million.

### ***Interest Rate Risk***

We are subject to interest rate risks from financial assets and financial indebtedness, primarily in the eurozone and Russia. We calculate existing interest rate risks with sensitivity analyses that show the effects of changes in market interest rates on interest payments, interest income and expenses as well as on equity. Should the sensitivity analysis show that interest rate fluctuations could lead to significant impacts, we could use derivative hedging instruments to avoid the risk.

A sensitivity analysis from STADA showed that an increase in market interest rates of 100 basis points in 2018 would have resulted in additional expenses of €4.5 million, compared to €1.2 million in the previous year, and a decrease in market interest rates of 100 basis points would have resulted in additional income of €0.4 million in the financial year ended December 31, 2018, compared to €0.6 million in the financial year ended December 31, 2017.

Following the Transactions and subject to the assumptions set forth under “*Use of Proceeds*,” our indebtedness and other debt arrangements will be primarily composed of the Senior Secured Credit Facilities (which will bear a floating interest rate based on EURIBOR or LIBOR), the Senior Notes, the Existing Senior Secured Notes and the Additional Notes (each which have a fixed rate coupon).

### ***Default Risks***

We are exposed to default risk in our operating business or as a result of financing activities if contracting parties fail to meet their obligations. To avoid default risks in financing activities, appropriate credit management processes are in place and such transactions are generally only entered into with counterparties of sufficient credit quality.

Risks of default also exist as a result of the supply of goods and services. We therefore strive to maintain business relations only with counterparties of sufficient credit quality. In addition, we partly use credit support such as guarantees, loan insurance or the transfer of assets to safeguard ourselves against default risk. Overdue receivables are continuously monitored and potential default risks are addressed through value adjustments. In addition, there is the risk that in a difficult economic and financial environment, national healthcare systems may delay or fail to make payments to us or our business partners, directly or indirectly increasing the risks of default.

### ***Transfer Price Risks***

We have an international network of subsidiaries and carry out strategic functions centrally through STADA Arzneimittel AG. As a result, an overarching tax transfer pricing model for the billing of intragroup services is of increasing importance. Potential risks of the non-recognition of these transfer prices for tax purposes (for example, from retroactive tax claims of the local tax authorities against one of our subsidiaries) are limited by the introduction of corresponding agreement procedures and a comprehensive definition of transfer prices in our Group-wide policies. There can be no assurance, however, that transfer prices will be recognized by the competent authorities.

### ***Impairment Risks***

The valuation rates of assets presented on our consolidated balance sheet are subject to changes in market and business relationships and thereby to changes in fair value. Our annual and case-related impairment test may result in significant charges against earnings and adverse impacts on balance sheet ratios. This particularly applies to goodwill primarily resulting from purchase price allocations linked to previous acquisitions, and for other intangible assets. All relevant risks are considered in the context of the preparation of the STADA Financial Statements and the Topco Financial Statements.

### ***Tax Risks***

Our business activity in the national markets is subject to the applicable national or international tax laws and regulations. Changes to the tax laws in the jurisdictions in which we operate as well as different law interpretations can result in risks with impacts on tax expenses, tax revenues, tax receivables and tax liabilities. Our tax department identifies, evaluates and systematically monitors tax risks and takes appropriate measures to reduce tax risks. Furthermore, we take advantage of our international network

and of our centralized strategic function, which allow us, among the other things, to have an efficient tax transfer pricing model for the billing of the Group's internal services. Potential risks of non-recognition of these transfer prices for tax purposes (e.g., from retroactive tax claims of the local tax authorities against a subsidiary of our Group) are limited by our internal procedures and a comprehensive definition of transfer prices included in our Group's guidelines.

### **Critical Accounting Policies**

The presentation of the net assets, financial position and results of operations in the STADA Financial Statements and the Topco Financial Statements is determined by recognition and valuation methods. To a certain extent, we make estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly reevaluated, estimates derived in this way may differ from actual circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

#### ***Purchase Price Allocations***

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets evaluated according to IFRS 3 and the consideration transferred, plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods used for purchase price allocations are primarily based on estimates and assumptions.

#### ***Impairment***

Goodwill is not amortized over the period of useful life. Instead, an impairment test is performed at least once a year (impairment-only approach). For this purpose, goodwill at STADA is allocated to cash-generating units aggregated into operating segments, where a cash-generating unit corresponds to STADA's two operating segments for the purpose of an impairment test of goodwill.

We carry out impairment tests for capitalized goodwill at least once a year. Additional reviews also take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit, including the carrying amount of goodwill to be tested. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. Following this three-year period, a specific estimated growth rate in the amount of 50% of the expected long-term inflation rate is assumed. Significant assumptions are made in order to determine the value in use, including assumptions regarding sales development, regulatory conditions, investments, the discount rate and currency relations as well as the growth rate. These assumptions are made individually according to the individual situations for every cash-generating unit and are partly based on internally determined assumptions that both reflect past experience and include external market data.

Other intangible assets with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of their useful life. Amortization shall begin when the asset is available for use, i.e., when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar rights is between three and 30 years. Expenses from scheduled amortization of intangible assets are allocated to the relevant functional costs and generally reported within cost of sales. If on the reporting date, there are indications that these assets are impaired, the recoverable amount of the asset is reevaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indefinite useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of these assets are compared with their carrying amounts and, if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell was determined using the relief from royalty

method. In our case the intangible assets with indefinite useful lives are relating to the umbrella brands of, in the case of the STADA Financial Statements, Hemofarm, Pymepharco and Vannier, all capitalized in the context of their respective acquisitions, and, in the case of the Topco Financial Statements, Hemofarm and STADA, all capitalized in the context of the STADA Acquisition. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the acquisition cost.

Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Impairments on other intangible assets and property, plant and equipment exist when the recoverable amount of an asset is lower than its carrying amount. At each reporting date, we assess whether indications for impairment are apparent. If this is the case, e.g., if certain defined critical values are exceeded, the asset's recoverable amount is determined. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for two operating divisions with specific parameters. Expenses arising from impairments are reported under the heading "Other expenses."

For the purpose of impairment tests of other intangible assets and property, plant and equipment, our cash-generating units are defined at the level of individual assets within the reportable divisions of Branded Products and Generics of STADA.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the heading "Other income."

For items of property, plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are reported as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

#### ***Development Costs***

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

#### ***Valuation Allowances on Receivables***

We make valuation allowances on receivables in order to anticipate losses expected in relation to the insolvency of customers. The maturity structure of net receivables and past experience in relation to bad debts as well as customers' creditworthiness are used as the criteria for evaluating the appropriateness of valuation allowances. This does not, however, exclude the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial position of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in Central and Eastern European countries.

#### ***Provisions for Pensions and Similar Obligations***

We maintain defined benefit plans in various countries, according to which the amount of pension benefits depends on the employee's pensionable remuneration and length of service or which contain guarantees not permitting recognition as defined contribution plans. Pension obligations are measured in accordance with actuarial principles using the projected unit credit method. The pension provisions recognized in the balance sheet correspond to the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets, adjusted for any limitation of the benefit asset. In addition to earned pensions and entitlements, the calculation also includes future salary and pension increases. For our

German companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2005G mortality tables. In other countries in which we operate, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. The discount rate will be based on long-term rates of return on high quality corporate bonds with fixed interest rates at the reporting date. In countries where there is no liquid market for corporate bonds, the discount rate is determined on the basis of market yields on government bonds. Changes to the assumptions can significantly influence the amount of future pension costs.

The standard IAS 19 only permits actuarial gains and losses to be recognized with no effect on income. It differentiates between gains and losses due to changes in demographic assumptions and financial assumptions as well as experience-based amendments. They are recognized directly in equity with no effect on income in the period in which they occur (“other comprehensive income” or “OCI”). The relevant amounts are reported separately in the consolidated statement of comprehensive income. For the calculation of the portion of the interest income on plan assets recognized through profit or loss, IAS 19 requires the application of the discount rate underlying the obligation. The remainder of the actual income from plan assets is to be recognized directly in other comprehensive income with no effect on profit or loss. The current service cost is recognized in staff costs of the individual functional areas. All past service costs that arise in the financial year shall be recognized immediately through profit or loss.

Several of our subsidiaries also grant their employees defined contribution plans. In these cases, we pay defined contributions to independent institutions due to legal or contractual requirements or on a voluntary basis without incurring additional liabilities. Contributions to be paid for the respective plans are recognized as expenses in the respective period in the relevant functional areas.

The other non-current provisions contain “anniversary provisions” and other long-term employee benefits. Commitments to anniversary payments are accounted in accordance with the guidelines in IAS 19 and other long-term employee benefits. In contrast to pension provisions, actuarial gains and losses are not recognized without an effect on the income statement. Such potential gains and losses are immediately reported as income or expenditure in the relevant functional areas. Furthermore, there is a working time accounts plan that is accounted for in the same way as commitments to anniversary payments.

#### ***Other Provisions***

We set aside other provisions in case current legal or constructive obligations to third parties arise from past events that will likely lead to an outflow of resources embodying economic benefits that can be reliably determined. An outflow of assets embodying economic benefits is considered as probable if it is more likely to occur than not. Other provisions are recognized in an amount that, taking into account all recognizable risks, offers the best possible estimate of expenditures necessary to fulfill the obligations. Any existing reimbursement claims by third parties are not netted with other provisions. Expenses from the creation of provisions are allocated to functional costs according to where they arise. If changes in estimates result in a reduction of the obligation, the other provisions are reversed on a pro rata basis and recognized through profit and loss under the item where the original expense was recognized.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. We set aside provisions in the event of a present external obligation and a probable outflow of resources (meaning that an outflow is more likely to occur than not). Provisions in relation to pending legal disputes are created based on how we estimate the prospects of the success of these methods. The determination of provisions for damages is also associated with substantial estimates and can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

#### ***Provisions for Warranties and Discounts***

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual expenses for warranties may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g., discounts to health insurance organizations) prescribed by law and due to other regulatory requirements. These are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.



## ***Income Taxes***

Income taxes include actual taxes on income as well as deferred tax liabilities. The tax receivables and liabilities recognized in the balance sheet include demands or liabilities for income taxes in Germany and outside Germany in respect of the year ended December 31, 2018, as well as from previous years, if applicable. The tax receivables and liabilities are calculated on the basis of tax rates effective as of the reporting date or known and already concluded for the future in the countries in which the taxable profit is generated.

Deferred tax liabilities are created for temporary differences between the tax base of the assets or liabilities and their valuation rate in the IFRS financial statements. Deferred tax assets are recognized to the extent that it is probable that a taxable profit will result against which the temporary difference can be utilized as well as for tax loss carryforwards. Deferred tax liabilities are recognized for temporary differences taxable in the future. We determine deferred taxes on the basis of tax rates applicable at the reporting date or those that have already been resolved and communicated for the future. Deferred tax receivables and liabilities are offset if these relate to the same taxation authority.

The tax expense in the period is recognized in the income statement, provided the changes in value that are recognized directly in equity are not affected. To the extent that there are changes in the tax rate with an effect on deferred taxes, the resulting effects are recognized in the period in which they arise.

We operate in various countries and are obligated to pay income taxes in each respective tax jurisdiction. In order to calculate the income tax provisions and the deferred tax liabilities in the Group, the expected income taxes as well as the temporary differences resulting from the different treatment of certain balance sheet items according to IFRS are determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on current and deferred taxes and thus on the net assets, financial position and results of our operations in the respective periods. Furthermore, we consider increasingly important the existence of a comprehensive tax transfer pricing model for the remuneration of intragroup services within the Group. Possible risks of non-recognition of these transfer prices for tax purposes are limited by the introduction of appropriate communication methods and an overarching definition of transfer pricing in the form of Group-wide policies.

## ***Derivative Financial Instruments***

We counter risks from fluctuations in cash flow with derivative financial instruments, which are exclusively used to hedge interest and currency risks resulting from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculation purposes.

Derivative financial instruments exist in the context of derivatives measured at fair value through profit or loss as well as in the context of derivative hedging instruments. Cash flow hedges, fair value hedges and hedges of net investments in a foreign operation can generally be recognized as derivative hedging instruments in the context of hedge accounting in accordance with IAS 39.

We use cash flow hedges to protect against fluctuations of cash flows associated with an accounted asset or an accounted financial liability or a highly probable planned transaction. Changes in the fair value of these hedging instruments are recognized with no effect on income in the amount of the effective part of the hedging relationship directly in equity. A transfer to the income statement takes place in the period when the underlying hedged item becomes effective. The ineffective part of the changes in value is, however, recognized directly in the income statement.

In the context of fair value hedges, the risk of a change in fair value of accounted assets or accounted liabilities or fixed off-balance liabilities is hedged. Changes in the fair value of these hedging transactions are recorded in our income statement as if they were changes in the fair value of the underlying hedged items. If the requirements for hedge accounting are no longer met, the carrying amounts of the previously hedged items are adjusted on the basis of their remaining terms. Hedges of net investments in a foreign operation are treated according to the same accounting policies as cash flow hedges.

As of the date of this offering memorandum, we have not yet made use of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

When determining the fair values of derivatives and other financial instruments for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows, which are already fixed or calculated by means of the current yield curve using

so-called “forward rates,” are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the reporting date.

As of December 31, 2018, we hold derivatives without hedging relationship in the form of currency swaps.

#### **Accounting Policies and Changes in Accounting Policies**

For a complete summary of our accounting policies and for information regarding recent and pending changes to our accounting policies, see the STADA Financial Statements as of and for the year ended December 31, 2018 and the Senior Notes Issuer Interim Financial Statements as of and for the nine months ended September 30, 2019 included elsewhere herein.

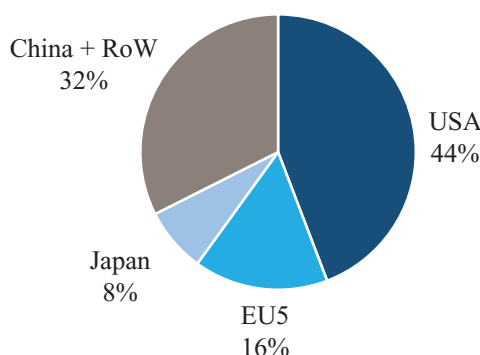
## INDUSTRY

### Global Pharmaceutical Industry Overview

The global pharmaceutical market is a growing industry with growth expected to be driven primarily by important sector growth trends such as an aging population in the world's developed economies, the launch of new and enhanced treatment options for patients, and the increasing significance of emerging markets.

The United States is the largest pharmaceutical market globally, contributing approximately 44.2% to total pharmaceutical sales in 2017. Historically there has been a favorable pricing environment and a generally higher utilization of pharmaceuticals in the United States, compared to other developed markets. Europe is the second largest market with Germany, the United Kingdom, France, Spain and Italy (the "EU5") contributing approximately 15.8% to total pharmaceutical sales and Japan is the third largest pharmaceutical market contributing 7.6%. China and the rest of the world market make up the remaining 32.4% of pharmaceutical sales.

*Global Pharmaceutical Drug Sales by Geographic Region*



Source: IQVIA Analytics Link 2017.

### Product Segments

The pharmaceutical industry is comprised of a broad range of product segments including patent protected branded prescription drugs, generic prescription drugs, OTC products and nutraceutical products. Patent protected branded prescription drugs include both chemical pharmaceutical products and biologics. Generic prescription drugs include simple generics, branded generics, specialty generics and biosimilars.

#### *Patent Protected Branded Prescription Drugs*

Patent protected Branded prescription drugs involve a significant commitment of time and money in research and development ("R&D") and depend upon patent protection laws to recuperate the significant initial investment and to compensate for other drugs in the pipeline that were unsuccessful. They are sold under branded names and can be either chemical pharmaceuticals, which are chemically synthesized small molecules, or biologics, which are large complex molecules extracted from a variety of natural sources (human, animal or microorganism) and are used to treat a range of diseases and medical conditions. Examples of biologics include vaccines, gene therapies and cellular therapies.

#### *Generic Prescription Drugs*

Generic drugs are the chemical and therapeutic equivalents of reference branded prescription drugs, typically sold under their generic chemical names at prices below those of their branded drug equivalent. These drugs can be introduced into the market once patents and regulatory exclusivity have expired on a given branded prescription drug, and are generally required to meet similar governmental standards as their branded name equivalent and also must generally receive regulatory approval prior to their sale. Governments, in an effort to control rising healthcare costs, are increasingly mandating the use of generic drugs instead of the more expensive branded equivalents as they often provide similar benefits after passing through the approval process.

### ***Simple Generics***

Simple generic drugs are marketed and sold using only the generic chemical name (International Non-Proprietary Name (“INN”)) and are not given a brand name.

### ***Branded Generics***

Branded generic drugs are marketed under another company’s specific brand name which is different to the brand name of the original product.

### ***Specialty Generics***

Specialty generics differ from original products in terms of their formulation or method of delivery. They sometimes require a new drug application to obtain regulatory approvals. These drugs are enhanced in terms of drug delivery, manufacture, or reformulation technology, and face a more stringent regulatory approval process than generic prescription drugs. They may also be referred to as added value generics, new therapeutic entities, or hybrids. Specialty generics take at least three to four years to be developed for registration.

### ***Biosimilars***

Biosimilars are an emerging class of biologic drugs. While generics are based on chemically synthesized small molecules that are identical to their branded originator counterpart on an atomic scale, biologics are based on large and complex molecules extracted from natural sources and are therefore very difficult to replicate. However, manufacturers have been able to create molecules that are highly similar to approved original molecule biologics and obtain regulatory approval. These molecules are offered at a more affordable price and are referred to as biosimilars. Biosimilar drugs can be thought of as the generic versions of biologics and are generally required to have no clinically meaningful differences to the original molecule biologics in order to obtain regulatory approval.

### ***OTC Drugs***

OTC or non-prescription medicine can be purchased by a consumer without the supervision of a health care professional such as a physician and without a prescription. OTC drugs are tried and tested products which have been in the market for many years and are not typically protected by patents but rely on brands to differentiate the products. As there are very few truly global OTC brands, there is a prevalence of local market leaders. As a result, local brands have the potential to be successful in niche markets.

### ***Nutraceutical Products***

Nutraceuticals are foods or food extracts that are used for medical benefits, and often come in the form of a dietary supplement. The increasing trend for “natural” products can be seen across consumer segments, and is also taking place in the pharmaceutical industry due to increased focus on general wellness and healthier lifestyles. Products based on naturally sourced active ingredients can have the same pharmaceutical effectiveness as standard pharmaceutical products, often with better safety profiles and more limited side effects.

### ***Industry Dynamics & Drivers***

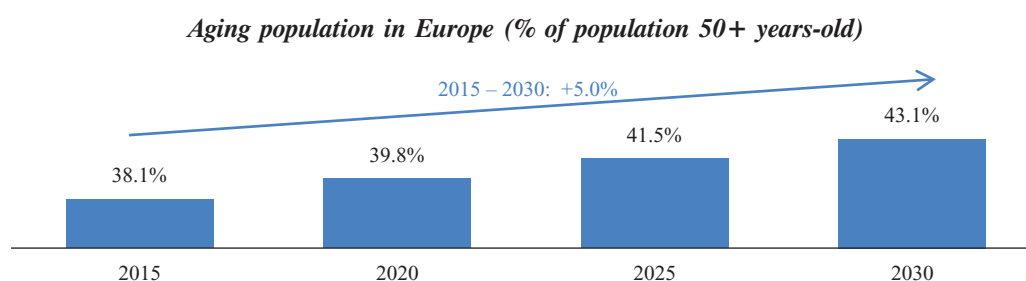
There are a number of fundamental characteristics and trends that have historically impacted, and which we believe will continue to impact, the growth of the broader pharmaceutical industry over the mid to long-term.

### ***Resilient, Non-cyclical Industry***

The pharmaceutical market is resilient and largely non-cyclical. Spending on prescription and OTC drugs is non-discretionary in nature and has historically increased throughout a variety of cyclical periods. Demand within the pharmaceutical market is driven by widespread global demand for improved healthcare standards, rising disease awareness and consistent investment in scientific innovation and subsequent introduction of new products and treatment regimes.

### ***Aging World Population***

Older individuals have a wider variety and consistency of health care needs and generally consume a greater proportion of healthcare spend and pharmaceutical products than younger people, particularly for the treatment of chronic diseases. According to the United Nations, the median age in the world is projected to rise from approximately 30 years in 2015 to approximately 36 years by 2050, with the median age in Europe projected to rise from approximately 42 years in 2015 to approximately 47 years by 2050. Furthermore, the percentage of the population aged 50 years and older is projected to increase by 5.0% from 2015 to 2030.



### ***Innovation Addressing Previously Unmet Medical Needs and Enhanced Treatment Options for Existing Patients***

New medicines are expected to transform patient care in connection with a large number of diseases, including respiratory and cardiovascular diseases, as well as oncology, immunology and central nervous system disorders, requiring increasing amounts of R&D expenditures. According to the European Federation of Pharmaceutical Industries and Associations, the pharmaceutical industry invested more than €33.9 billion in R&D in Europe in 2016, compared to R&D expenditures of €7.8 billion in 1990, representing an increase of over four times.

### ***Pharmaceutical Products Provide Cost Effective Healthcare Spend Alternatives***

Compared to other healthcare measures such as hospitalization and surgery, pharmaceutical products contribute a relatively small share to total healthcare spending and thus are a cost effective measure for healthcare payors for the management of diseases.

### ***Pharmaceutical Cost-containment in Developed Markets***

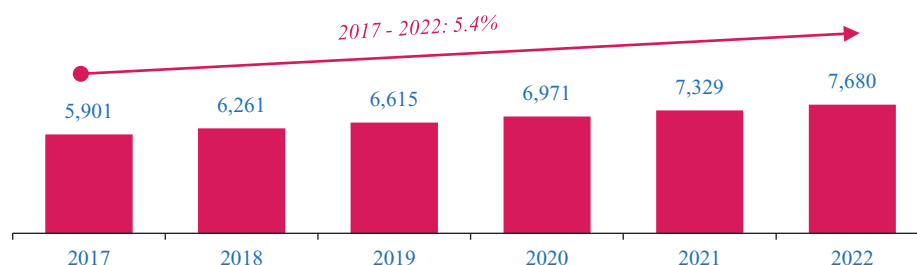
Government austerity measures, especially in the eurozone, are resulting in the tightening of reimbursement policies and increasing pressure on the price pharmaceutical companies can charge for their products. Furthermore, reductions in overall health care spending by governments has led to an increased focus on cost effective alternatives, including generic prescription products and preventive medicine through more frequent consumption of OTC products.

### ***Lifestyle Changes***

In the developed markets, an increase in the consumption of unhealthy foods combined with a general trend towards a more sedentary lifestyle has led to an increase in ailments such as diabetes, heart disease, high cholesterol, high blood pressure and obesity. This has led to an increased demand for pharmaceutical products designed to treat and prevent these conditions and an increase in demand for nutraceutical products and vitamins. Notably, this trend is also becoming increasingly apparent in emerging markets.



***Growing vitamins, minerals, nutritional supplements and tonics markets as a result of greater health awareness in Europe (€m)***

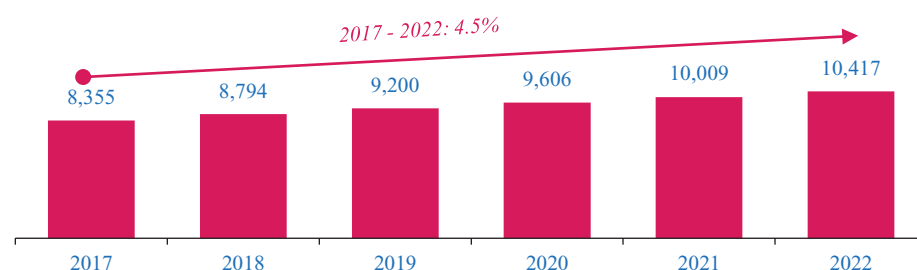


Source: IQVIA OTC Review 2018 Europe Overview.

***Health Insurance and Increase in Disposable Income***

The significant growth in disposable household income in both developed and emerging markets and the expansion of health insurance coverage is expected to drive increased access and demand for both prescription pharmaceuticals and OTC products. This has led for example, to an increased demand for cough, cold and allergy products.

***Growing cough, cold, and respiratory remedies markets in Europe (€m)***



Source: IQVIA OTC Review 2018 Europe Overview.

***Increasing Role of Emerging Markets***

According to IQVIA, emerging markets are expected to account for a large portion of overall growth in the pharmaceutical industry in the coming years. For example, in the generics industry, Central Eastern European countries such as the Czech Republic, Romania, Slovakia, Hungary, Poland, and Serbia are expected to grow at a combined CAGR of 3.2% for 2018 to 2022, while Russia and Ukraine are expected to grow at a CAGR of approximately 8% and 11%, respectively, for the same period. This is higher than the anticipated growth of developed Western European countries such as Germany, the United Kingdom, France, Spain, Italy, Netherlands and Switzerland where the combined generics industry CAGR for 2018 to 2022 is expected to be 4.6% (source: IQVIA). Overall economic activity in emerging markets is expected to grow in line with rising disposable incomes, rising life expectancy and increased access to medical care. Compared to more mature markets, emerging markets tend to have a larger proportion of branded generics products and have health care systems that promote higher levels of “out of pocket” spending by the consumer.

***Industry Structure***

The broader global pharmaceutical industry can be grouped into five categories, each addressing different market segments as described below:

***Integrated, Global Pharmaceutical Companies***

These are typically global pharmaceutical companies that are involved in all aspects of the pharmaceutical value chain from early stage compound discovery, research and development to the sale and marketing of the pharmaceutical product. The high failure rates and costs associated with discovering and developing a compound in the laboratory through to successful commercialization leads most global pharmaceutical

companies to focus their efforts on the development and commercialization of a limited number of blockbuster drugs in their portfolio so as to achieve an acceptable level of profitability.

### ***Specialty Pharmaceutical Companies***

These are typically small to medium sized pharmaceutical companies focused either on specific geographies or therapeutic areas. Geographic focused pharmaceutical companies focus primarily on the marketing and distribution of drugs within selected regions where they have developed a strong sales force presence. These companies often have broad product portfolios and strong national or regional distribution networks. Therefore, geographic focused pharmaceutical companies tend to be less at risk from the failure of any single product or any single market and, unlike global pharmaceutical companies, focus their efforts on small and medium value drugs. Specialty drug focused therapeutic pharmaceutical companies instead focus on specific therapeutic areas across the value chain. These companies typically seek to have a multi-national presence in their particular niche product markets.

### ***Biotechnology Companies***

Biotechnology companies focus on new drug discoveries based on biological processes and are generally engaged in the early stages of the value chain. These companies rely on their technological expertise, and only the larger companies have developed sales and marketing capabilities. Biotechnology companies often seek to bring their products to market through partnerships and alliances with larger pharmaceutical companies which have established sales and marketing functions. Biotechnology companies are growing in importance as they are increasingly responsible for the discovery of new drugs.

### ***Generic Pharmaceutical Companies***

Generic pharmaceutical companies focus on the manufacture and sale of pharmaceutical products which are no longer patent protected. These companies do not typically engage in the research and development of new products and seek to maintain profitability by focusing on low-cost and high volume production.

### ***Consumer Healthcare Companies***

Consumer healthcare and OTC companies focus on the manufacture and sale of products that meet health needs but do not require prescriptions. Despite varying definitions of consumer healthcare, it is generally considered to be made up of any consumer good in which health related claims can be made including: OTC medicines, personal hygiene, oral care, food & beverage, nutritional products, women's health, infant care products and nutraceuticals. These markets are characterized by significantly lower levels of regulation and government involvement, generally not being reimbursable under government backed healthcare schemes. The consumer healthcare market and companies are very focused on brands, with a correlation between profitability and the contribution of leading brands to companies' portfolios both globally and locally. OTC drugs account for the largest portion of the consumer healthcare market, followed closely by vitamins and dietary supplements.

## **Regulation**

The global pharmaceutical industry is extensively regulated by a number of local and international regulatory authorities such as the U.S. Food and Drug Administration and the European Medicine Agency. Regulatory requirements and procedures can differ by individual pharmaceutical market, but include provisions relating to the control of the pharmaceutical markets, manufacturing, research and clinical development, marketing, labelling and packaging, storage, distribution, dispensing, advertising and promotion, export and import, and sometimes pricing of pharmaceutical products.

### ***European Union***

The EU pharmaceutical industry regulations require that medicinal products, including generic versions of previously approved products and new strengths, dosage forms and formulations of previously approved products, must receive a marketing authorization before they can be placed on the market in the EU. There are three main procedures for application for authorization to market pharmaceutical products in the EU member states: the Centralized Procedure, the Mutual Recognition Procedure, and the Decentralized Procedure (each as described herein). It is also possible to obtain a pure national authorization for products intended for commercialization in a single EU member state only. For more information, see "*Regulation.*"

## Pricing and Reimbursement

Healthcare is a major focus of governments around the world, with health services consuming a significant percentage of governments' budgets. Sales of pharmaceutical products depend in part on the availability of reimbursement from third-party payors. Third-party payors include government health programs, managed care providers, private health insurers and other organizations. Pharmaceutical prices in developed nations are predominantly determined by government controlled authorities.

### *Europe*

The majority of European citizens obtain their healthcare benefits from state organized programs. Governments in European nations exert significant control over the cost of care, either through price controls on prescription drugs, or reimbursement policies for prescription drugs sold within the country. The following is an overview of the systems in the EU5 countries.

#### *Germany*

In 2009, it became compulsory for high net worth individuals who could opt out of statutory health insurance to obtain private health insurance. In 2016, around 86–87% of the population was covered by statutory health insurance with around 11% of the population covered by private health insurance. Statutory health insurance is provided by statutory healthcare funds (*Krankenkassen*). Through these funds, citizens have equal access to healthcare benefits from healthcare professionals who are licensed and provide healthcare services within the statutory healthcare system. For the employed, membership in the statutory health insurance system is mandatory unless their income rises above an annually determined threshold (currently €57,600 per year). Previously, Germany did not apply any form of external price referencing with other countries, and was itself a reference country for many EU member states. Under the Pharmaceuticals Market Reorganization Act, a revised reimbursement system introduced in 2014 within the German statutory health insurance, drugs employing new active pharmaceutical ingredients are allowed to set their prices for the first twelve months post launch. A cost benefit analysis is then launched within three months of introduction by the Institute for Quality and Efficacy in Health Care. For all drugs employing new active pharmaceutical ingredients, the manufacturer must prove the benefits over comparable available products, failing which the drug will be added to the existing reference pricing list. At the end of twelve months, the price of drugs that demonstrate additional benefits can be negotiated between drug manufacturers and the German federal association of statutory health insurance funds.

#### *United Kingdom*

The UK's National Health Service (the "UK NHS") was established in 1948 to provide universal healthcare to all residents. The UK NHS is financed partly by the government and partly from national insurance premiums, paid at source by employers and employees. Around 11% of the population currently has some form of private medical insurance. Reimbursements are subject to the Pharmaceutical Price Regulation Scheme ("PPRS"), which is a profit framework that allows drug manufacturers a defined return on capital and profit each year. The National Institute for Health and Clinical Excellence ("NICE") was established in 1999 to review the cost efficiencies of medicines and discourage their use if their cost outweighed their benefit. NICE is an executive non-departmental public body of the Department of Health in the United Kingdom.

In April 2017, the Health Services Medical Supplies (Costs) Act ("The Act") was given Royal assent, effective from April 2018. The Act is focused on controlling the cost of health service medicines and other medical suppliers in the United Kingdom. Prices of branded medicines for the NHS are regulated through two schemes: Pharmaceutical Price Regulation Scheme (PPRS), which is voluntary, and Statutory Scheme. Branded medicine providers can choose to sign up to PPRS or if not, they will automatically fall under the control of Statutory Scheme. However, unbranded generic medicines sold by companies which had opted into the PPRS in relation to their branded medicines, fell outside the Statutory Scheme. Hence pricing of their unbranded generic medicines was not subject to the control of the Statutory Scheme and was instead driven by market competition. This had created a loophole allowing some companies to significantly increase the price of unbranded generics or in some cases de brand the branded medicine and significantly increase the price owing to lack of competition. The Act introduced a similar payment mechanism on medicines under the Statutory Scheme as that under the PPRS. As a result, the government can now control the prices of unbranded generic medicines. In addition, the Act clarifies the government's power to require companies to make payments to control the cost of health service medicines. The Act also includes

the power to create regulations requiring manufacturers, distributors and suppliers to the NHS to maintain records and, if requested, disclose such records to the department of health through the issuance of an information notice, thereby strengthening the basis on which the government can collect data on the sale and purchase of medicines from all parts of the supply chain. In case of non-compliance, the government can charge organizations a maximum penalty of £10,000 per day or a single payment of £100,000.

#### *France*

France has a social insurance system which provides near universal coverage for patients. The main scheme (Régime General) currently provides coverage for close to 92% of the population, and is predominantly financed through compulsory contributions made by employees and employers. Around 95% of the population has additional contracts with one of the supplementary sickness funds (including mutuelles, which are not for profit providers) which cover private medical insurance and out of pocket payments. In an effort to contain overall healthcare costs, the government closely controls the supply of prescription drugs in its capacity as both regulator and the industry's largest customer.

#### *Spain*

In Spain the government's pricing and reimbursement policy has been focused on cost-containment measures as it attempts to reduce its financial deficit, despite the fact that prices in Spain are among the lowest in the European Union. Since 2000, the government has introduced various price cuts, reductions to wholesale and retail margins and cuts to the list of reimbursable drugs. At a central level, the Spanish government has enacted four royal decree-laws since 2010 that have directly affected the pharmaceutical industry by means of price reduction of older pharmaceutical products, mandatory rebates on drugs and medical devices, and limitations of the numbers of products eligible for a reimbursement under the Spanish National Health Service.

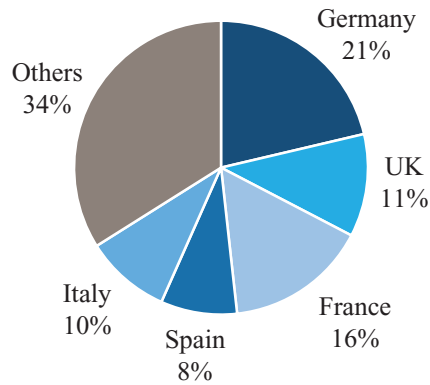
#### *Italy*

In Italy the price setting of medicines reimbursed by the National Health Service (the "Italian NHS") is regulated at the central level by the Italian Medicines Agency ("AIFA"), the national regulatory authority. The Italian health care system is mostly public and, therefore, the price of drugs is determined under strict Health Technology Assessment processes. The prices of pharmaceuticals' reimbursements by the Italian NHS is set through direct negotiation between AIFA and the pharmaceutical companies. The Italian NHS is largely funded through national and regional taxes, supplemented by co-payments from patients for pharmaceuticals and outpatient care. Public sources make up approximately  $\frac{4}{5}$  of total health care spending, with private spending accounting for approximately  $\frac{1}{5}$ , mainly in the form of out of pocket expenses. In Italy, only small fraction of total health care expenditure is funded by private health insurance.

### **European Generics Market**

In 2017, the generic drugs market in Europe had €31 billion in net sales. The major markets in Europe, being Germany, France, the United Kingdom, Italy and Spain, are expected to grow at a CAGR of approximately 4.6% for 2018 to 2022. The graph below illustrates the European generic drug sales by region for 2017.

### European Generics Drug Sales by Geographic Region



Source: IQVIA MIDAS EU28+CH+NO+Serbia / Panel: Retail only. Note: Excludes Russia.

### Industry Dynamics

#### Generics Penetration

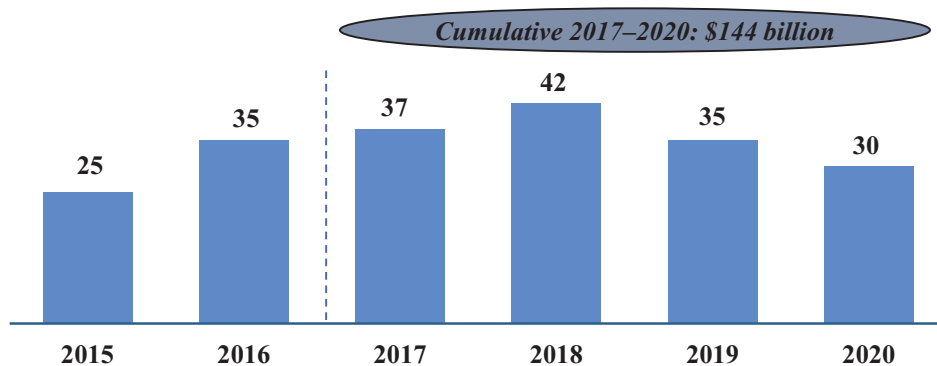
The size of the generics market differs widely across the various EU member states driven by various factors including market conditions for new medicines, pricing/reimbursement structures, prescribing/dispensing tradition and the prevalence of efforts to encourage generic use. In some member states such as the United Kingdom, Germany, The Netherlands and Denmark, generics are promoted and seen as a tool to contain rising pharmaceutical patent and trademark office costs and as such these member states have strong generics penetration rates as follows (by value): United Kingdom 52.4%, Germany 56.3%, The Netherlands 49.0% and Denmark 49.9%. In other markets such as Spain, Belgium and Italy, where the original pharmaceutical prices are relatively low, brand-recognition is high and generics are not actively prescribed by doctors or promoted by healthcare insurance companies, there is a much lower level of generics market penetration. Hence, the penetration rates are as follows (by value): Spain 44.8%, Belgium 35.1% and Italy 38.1% (source: IQVIA MIDAS 2017).

There is an increasing policy shift in certain European countries to promote generic prescribing as part of overall healthcare reforms and to reduce the overall level of pharmaceutical expenditure which will likely lead to an increase in the level of generics penetration in European markets.

#### Patent Expiry of Top Selling Drugs

The pharmaceutical market is expected to face a large number of patent expirations in the coming years, offering generic pharmaceutical companies opportunities to capitalize on this market. Furthermore, the value of the addressable market for generics from key brands losing exclusivity has increased in the majority of major European countries over the last three years (source: IQVIA MIDAS).

#### Sales coming off-patent in Germany, France, Italy, Spain the United Kingdom (\$billion)



Source: IQVIA MIDAS.



### ***Cost-containment Measures***

As noted above, many European countries are tightening reimbursement policies and increasing pressure on the price pharmaceutical companies can charge for their products leading to an increased focus on cost effective alternatives such as generics and OTC drugs.

### ***Increasing Demand in Emerging Markets***

Emerging markets are expected to generate higher growth in generics and OTC markets than Western Europe for the period from 2018 to 2022, with an expected CAGR for Russia and Romania over this period of 4.9% and 11.2% respectively (source: IQVIA). This growth is driven by rising disposable incomes, rising life expectancy and increased access to medical care. Despite having a larger proportion of branded generic and OTC products than more mature markets, governments in emerging markets are beginning to encourage the use of more cost effective alternatives offered in generic drugs.

## **Summary Overview of the Six Largest Geographic Markets for STADA**

### ***Germany***

The German generics market had sales of approximately €6.8 billion in 2017 and has one of the highest levels of generic penetration of nearly 77% in 2017 (by volume). Germany has adopted key price saving measures and a high price discount for generics, by a combination of reference pricing rebates, mandatory substitution, reimbursement shifts, and a well-established public tendering system which covers the majority of generic sales. The generics market is relatively fragmented with the top-five players in Germany representing approximately 52% of the overall generics market. The German generics market showed growth of 4.1% in 2014 to 2017 and is expected to grow at a CAGR of 3.6% in 2018 to 2022 (source: IQVIA).

OTC products represent an important product category in Germany representing approximately 35% of overall market revenues where brand-recognition is important to consumers. The OTC market in Germany had sales of approximately €4.6 billion (US\$5.6 billion) in 2017 and is expected to grow at a CAGR of 2.4% in 2018 to 2022, based on data received from IQVIA. OTC products are not reimbursed by public health insurances but are paid for directly by the customers who continue to be influenced by brand-recognition. In Germany, OTC products are available in pharmacies, supermarkets and via online retailing. The OTC market is highly fragmented with the top ten companies representing approximately 39% of the market in 2017, based on data received from IQVIA.

### ***Russia***

The Russian market had sales of approximately €2.8 billion for 2017 and has a relatively high level of generic penetration of approximately 73% as of 2017 (by volume).

The government funded segment covering hospitals and the Additional Medicines Supply Program (the “DLO”), which represents approximately 31% of the market, with purchasing largely conducted by tenders with the government looking for the lowest price, and with a strong preference for local producers. The majority of the market (approximately 66%) is driven by retail sales (largely via pharmacies) which is an out of pocket market paid for directly by patients and consumers. Branded generics and OTC products dominate the out of pocket market with INNs representing a very small share of the market. The state funded segment is expected to lag behind retail due to the expected freeze of budget growth and localization effects, with the retail sector expected to continue to drive the majority of the overall market growth with the consumer health market growing faster than the prescription market.

The Russian generics market is one of the most fragmented markets in Europe with the top-five players by sales controlling approximately 17% of the market in 2014. The Russian market grew at a CAGR of 15.1% between 2013 and 2016, and is expected to continue to grow at a CAGR of 8.1% in 2018 to 2022.

The OTC market in Russia has sales of approximately €4.3 billion (US\$5.2 billion) in 2017 and is expected to grow at a CAGR of 4.9% in 2018 to 2022, based on data received from IQVIA—faster than the majority of Western European countries despite the recent trends in reduced disposable income. The majority of OTC products are non-reimbursable with OTC almost fully covered from out of pocket spend by consumers. Currently, OTC products are only available in pharmacies with no other mass market channels such as grocery stores or supermarkets and as such physician and pharmacist recommendations are key sales drivers for OTC products.

The Russian OTC market is relatively fragmented with the top-five players in the Russian OTC market representing approximately 22.3% of the market in 2017 (source: IQVIA OTC Review 2018 Russia).

### *Italy*

The Italian generics market had sales of approximately €3.5 billion for 2017 and has one of the lowest levels of generic penetration in Europe of approximately 48% as of 2017 (by volume) and an average level of pricing discount as a result of a high level of brand awareness and use of branded generics.

In Italy, a mandatory 50% price discount is applied to public providers of generic pharmaceuticals approved under national registration procedures, with wholesalers of generic pharmaceuticals restricted to a regulated margin of 3% for wholesalers of generic pharmaceuticals. Tenders are only used for procurement for public institutions such as hospitals. Physicians are free to indicate a specific brand of pharmaceutical to avoid generic substitution if they explicitly give reasons for the choice, but pharmacies are required to dispense a cheaper generic instead of a branded drug if not ruled out by a physician and if available. Patients can also opt to co pay for a reimbursed pharmaceutical if the price being charged for the branded product is above the reference price.

The Italian generics market is relatively fragmented with the top-five players by sales controlling approximately 40.5% of the market in 2017. Given the high level of brand awareness, the pharmacist and patient have the most influence on the purchasing decision. The Italian generics market is expected to grow at a CAGR of 6.2% in 2018 to 2022 (source: IQVIA).

The Italian OTC market represented sales of approximately €3.5 billion in 2017 and is expected to grow at a CAGR of 2.3% in 2018 to 2022. The Italian market is generally flat in terms of volume growth while the limited growth in terms of value is substantially determined by price increases. In addition, the market is concentrated in a limited number of players. Tenders are only used for procurement for public institutions such as hospitals. Physicians prescribing an off patent drugs are required to specify the active ingredient and in addition they can add the name of the brand or the INN. Pharmacists are required to dispense the cheapest product according to the “Transparency List,” unless patients choose to co pay in order to obtain a more expensive brand.

### *United Kingdom*

The UK generics market had sales of approximately €5.3 billion in 2017 and has one of the highest levels of generic penetration in Europe of approximately 85% in 2017 (by volume).

The PPRS does not apply to generic versions of a pharmaceutical, which relies on competitive pricing dynamics and allows free pricing for generic pharmaceuticals as long as the price is below that of the patented original drug. Reimbursement is regulated at the retail level for Category M generics products (approximately 90% of generics products) based on a calculation that incorporates the volume weighted average price charged by manufacturers.

The UK is a mature and highly genericized market with the highest overall level of price discounting in Europe as a result of the concentrated buying power of the NHS, although there is a limited use of tenders in the UK market outside of hospitals and government tenders on vaccines for national immunization schedules. Wholesalers are the key decision makers in the purchasing decision as both physicians and pharmacists prescribe and order only by the generic name.

The UK generics market is highly fragmented with the top-five players by sales controlling approximately 13.7% of the market in 2017. The UK generics market is expected to grow at a CAGR of 3.6% in 2017 to 2022.

The OTC market in the United Kingdom represented sales of approximately €1.2 billion in 2017 and is expected to grow at a CAGR of 0.6% in 2018 to 2022. The majority of OTC products are non-reimbursable and there is a low level of regulation in the UK market, particularly as the UK is a pioneer of switching established and well known prescription products to OTC. The nature to self-medicate is extremely prevalent in the UK, with product choice heavily influenced by a high level of in store promotion and direct to consumer advertising. Grocery retail stores, supermarkets and pharmacies remain the major channels for the distribution of OTC products in the United Kingdom with online retailing growing slowly. The UK OTC market is relatively consolidated with the top-five players representing approximately 37.3% of the market (source: IQVIA OTC Review 2018 UK).

## *Spain*

The Spanish generics market had sales of approximately €3.2 billion for 2017 and has a relatively low level of generic penetration of approximately 60% as of 2017 (by volume).

Prices and margins for prescription drugs are tightly regulated. Recent pricing reform implemented in Spain expects all pharmaceutical prices (including both original drug and generics drugs) to equalize, with the government unlikely to reimburse products that do not reduce the list prices compared to the generics. While price is the most important factor in the Spanish generics market, pharmacists still have a relatively strong decision making power as a result of the fragmented pharmacy landscape in the country.

Pharmaceutical margins on generics are tightly regulated for both pharmacies and wholesalers, although there is a limited use of tenders in the Spanish market except for certain regions (e.g. Andalusia) with pharmaceutical companies typically contracting centrally with the regional authorities.

The Spanish generics market is relatively fragmented with the top-five players by sales controlling approximately 38% of the market in 2014. The Spanish market grew at a CAGR of 5.4% between 2014 and 2017, and is expected to grow at a CAGR of 3.1% in 2018 to 2022 (source: IQVIA).

In Spain, OTC products account for a relatively small proportion of the overall market compared to prescription pharmaceuticals and generics, with total OTC revenues of approximately €1.5 billion in 2017 and is expected to grow at a CAGR of 2.3% from 2018 through 2022.

## *Belgium*

The Belgian generics market had sales of approximately €613 million in 2017 and grew at a CAGR of 5.1% between 2014 and 2017, and is expected to grow at a CAGR of 6.4% in 2018 to 2022. The generic penetration in Belgium is relatively low at 40% as of 2017 (by volume).

Since 2001, Belgium has a reference pricing system (“RPS”) for generics. The RPS works by imposing a fixed minimum price difference between generic and originator medicines (reference price, RP). Over time, the Belgian government has progressively reduced the reference price from 84% (until July 2002), 80% (until January 2003) to 74% of the price of the originator medicine (until July 2005). The current level stands at minimum approximately 60% of the price of the originator medicine. After its introduction in 2001, the RPS was associated with an increased market share of generic medicines. The RPS was enlarged in 2005 to include all pharmaceutical forms and dosages of the same active substance. Patient co-payments in Belgium are high compared to other European countries, and range from 0% to 80% of the medicine price depending on the type of patient and medicine. Belgian policy attempts to foster demand for generic medicines by increasing patient co-payment for specific medication classes and for branded medicines that are off patent.

In 2006, quotas for prescribing low-cost medicines (generic medicines or originator medicines that have reduced their price) were assigned to physicians. The volume quotas, expressed in defined daily doses (DDD), affect reimbursable outpatient medicines dispensed by retail pharmacies, but not pharmacists’ magistral preparations. For the physicians, the minimum prescribing rate for lower priced medicines is 27% of all prescriptions expressed in DDD. Pharmanet (an information system created in 1996) data are used to check whether physicians comply with quotas. If physicians prescribe expensive medicines inappropriately, they are monitored by the Ministry of Health for at least six months and receive information and training in low-cost prescribing.

A law permitting generic substitution by pharmacists conditional on getting approval from the prescribing physician and the patient was passed in 1993. However, as the royal decree necessary to put this legislation into practice has not been passed to date, generic substitution by pharmacists is not allowed. Since April 2010, pharmacist margins in Belgium are made up of two components: a fixed lump sum and an economic margin set as a percentage of the price of the medicine (4%). This system aims to make the delivery of generic medicines neutral to pharmacists from a financial perspective.

The OTC market in Belgium represented sales of approximately €742 million in 2017 and is expected to grow at a CAGR of 1.8% between 2018 and 2022.

## BUSINESS

### Overview

We are a leading international healthcare and pharmaceuticals company focused on branded and unbranded generics, with a successful track record spanning over 120 years. With more than 17,000 SKUs covering a large number of therapeutic areas, we develop, manufacture and market a diversified product portfolio that includes many category leaders. We distribute our products in approximately 120 countries and have a direct presence in all major European markets, as well as in growth markets in the MENA region, Asia, South America and Australia.

We are the fifth largest generics company by sales and we ranked ninth among OTC companies in Europe as of December 31, 2018. Our market-leading positions provide us with a competitive advantage, which is bolstered by our scale, brands, reputation and the breadth of our product portfolio, as well as our local market expertise and established distribution channels built on strong relationships with wholesalers and pharmacies. We continually work to optimize and manage our costs, including through our cost-effective manufacturing footprint comprising 18 facilities across Europe, Asia and South America. Building on our tried and tested platform, we have released on average more than 600 new products each year since 2014. Our solid pipeline of new products provides us with further opportunities as our markets grow. We have a strong track record of growth, both organically and through focused acquisitions, and seek to grow our business and further improve our profitability by internationalizing successful products. In the twelve months ended September 30, 2019, we generated sales of €2,525.5 million and Pro Forma Adjusted EBITDA of €821.3 million.

The products we sell are classified according to two divisions: Generics and Branded Products.

*Generics:* Within our Generics division, we sell unbranded generics products, offering a lower cost alternative to the substantially more expensive pharmaceutical-originator products. Most of the products in our Generics division require a prescription for purchase and are only available from pharmacies and hospitals. The market for prescription products is generally characterized by regulated pricing, with competition driven by the reliability of supply and cost competitiveness. Patent expirations of originator drugs feed our product pipeline in the Generics division, allowing us to leverage our distribution channels and local market knowledge to launch new generics products. The product portfolio in our Generics division is diversified, with the top ten products accounting for only 17% of sales in our Generics division for the twelve months ended September 30, 2019. The top-ten selling products (and their respective therapeutic areas) in our Generics division for the twelve months ended September 30, 2019, were: Epoetin zeta (anemia), Tilidine/Naloxone (pain), Atorvastatin (cholesterol), Omeprazole (gastric ulcers/reflux), Pantoprazole (gastric ulcers/reflux), Diclofenac (pain, anti-inflammatory), Paracetamol (pain), Bisoprolol (high blood pressure), Fentanyl (Pain) and Enalapril (high blood pressure). The largest countries by sales in our Generics division for the twelve months ended September 30, 2019, were: Germany, Italy, Belgium, Spain, Serbia, Russia, France and Switzerland. We generated sales of €1,492.9 million and Management Adjusted EBITDA of €413.4 million in our Generics division for the twelve months ended September 30, 2019.

*Branded Products:* Our Branded Products division primarily includes branded OTC products, which are typically available without a prescription, such as sunscreens, cough and cold medicines, DNA tests, cosmetics, glucose meters and a small range of branded prescription generics. Our best-known brands include Ladival (sunscreen), Grippostad and Covonia (cough and cold) and APO-go (Parkinson's disease). The market for products in our Branded Products division is generally characterized by market-driven pricing, with brand strength, marketing strategy and customer loyalty being important factors for success. Our portfolio of Branded Products is diversified, with the top ten products accounting for only 34% of sales in our Branded Products division for the twelve months ended September 30, 2019. The top-ten selling brands (and their respective therapeutic areas, prescription requirements and markets in which they are sold) in our Branded Products division for the twelve months ended September 30, 2019, were: APO-go (Parkinson's disease, prescription required, available in 28 countries), Bortezomib (anti-cancer medication, prescription required multiple myeloma), Zoflora (household disinfection), Grippostad (colds, OTC, available in 28 countries), Aqualor (rhinitis, sore throats, available in 18 countries), Snup (rhinitis), Vitaprost (prostate diseases), Nizoral (anti-dandruff shampoo), Hirudoid (anti-coagulant) and Ladival (sun lotion). The largest countries by sales in our Branded Products division for the twelve months ended September 30, 2019, were: Germany, the United Kingdom, Russia, the United States and Italy. We



generated sales of €1,032.7 million and Management Adjusted EBITDA of €281.8 million in our Branded Products division for the twelve months ended September 30, 2019.

## **Our Strengths**

### ***Organic Growth Underpinned by Attractive Market Fundamentals and Bolt-on Acquisitions***

Increasing demand for our Generics and Branded Products is driven by global growth factors in the pharmaceutical industry, including population growth, aging societies, increased incidences of chronic disease, advances in medical therapies and increasing self-medication and health awareness. According to IQVIA, the global generics market is expected to grow at a CAGR of 5% from 2019 to 2023, driven by these growth trends and increasing generics penetration. Generics penetration in the market for prescription products is partly driven by cost-containment regulation that incentivizes the use of generics to counteract the increasing cost pressure facing government-sponsored health programs. Another key driver of generics penetration is patent expirations. According to publicly available estimates, a wave of patent expirations in developed markets is expected to push originator products with sales of more than \$12.2 billion in aggregate into the generics market between 2019 and the end of 2022.

Given that our Branded Products division consists mostly of OTC products, growth in this division is additionally driven by factors influencing the self-payment and self-care market for health and well-being-related products. We expect demand for self-payment and self-care products to benefit from the ongoing trend among regulators to transfer prescription drugs to OTC status, which decreases the cost burden on the public health system and expands market opportunity for companies such as us that offer branded OTC products. Additionally, demand for OTC products is expected to be driven by rising income levels and the emerging trend toward greater health awareness, which we believe results from ongoing research on disease prevention, data access and increasing levels of education. According to IQVIA, the global OTC market is projected to grow at a CAGR of 5% from 2019 to 2023.

In addition to our organic growth, we have a strong record of growth through focused acquisitions. Examples of our most recent acquisitions in 2018 include the acquisition of the majority stake in BIOCEUTICALS, a German manufacturer of the active ingredient and finished product erythropoietin, being marketed to both third-party customers and STADA sales companies; the acquisition of Ketodol, the acquisition of the rights to the anti-dandruff shampoo Nizoral in Europe and the MENA region; the purchase of trademark rights to Hedrin in Belgium, Spain and Portugal, the product rights for APO-go in Germany and Scandinavia; and the repurchase of all European trademark rights to Ladival.

In addition, in 2019, we acquired from GlaxoSmithKline, through our British subsidiary Thornton & Ross, five skincare brands and a pediatric cough remedy in Europe as well as selected markets in APAC and Latin America.

### ***Well-Established Generics Player with Leading Positions in Our Generics Division and an Attractive Portfolio in Our Branded Products Division with High Growth Potential Through Enhanced Internationalization***

We are the fifth-largest generics company by sales in Europe as of December 31, 2018. In our Generics division, based on IQVIA data for the year ended December 31, 2018, we held a top-three market share in generics sales in Germany. We were also the fourth-largest player in Italy and the fourth largest in Spain. Moreover, in the year ended December 31, 2018, our Belgian Generics unit was the leader in the Belgian market, and we ranked third among national manufacturers in the Russian Generics market. Even though these markets are generally considered to be mature, there is significant room for increased penetration (by value) and further growth in generics in these markets. For example, according to IQVIA, generics penetration is below 30% in Belgium, 35% in Italy, 40% in Spain, and below 50% in France and Germany. The generics industry in Germany, Spain and Russia is expected to increase by a CAGR of 2%, 5% and 8% from 2019 to 2023, respectively. Continued growth in the generics industry in countries where we are already market leaders provides us with an opportunity to continue to grow sales in our Generics division.

We also benefit from an attractive portfolio of products in our Branded Products division, including category-leading therapies for cough and cold, medical skin care sun protection, vitamin deficiencies and many leading brands across therapeutic areas in Germany, the United Kingdom, Russia and other countries. For the year ended December 31, 2018, approximately 75% of sales of our top 30 products in our Branded Products division were of products with a top-three market position in their respective countries. Many of these leading products have been category leaders in their respective markets for many years, providing us with an opportunity to leverage our local marketing expertise to drive the



internationalization of these leading brands into new markets and further grow sales in our Branded Products division.

#### ***Competitive Advantage Through Scale, Local Market Expertise and Established Relationships***

Our market-leading positions provide us with a competitive advantage over new entrants in our markets, bolstered by our scale and the breadth of our product portfolio, as well as our local market expertise and established distribution channels built on strong relationships with wholesalers and pharmacies.

The sale and distribution of pharmaceutical products such as branded and unbranded generics is regulated in most countries. Because such regulatory regimes are highly fragmented, competitors trying to enter a new market have to navigate a variety of complex regulatory requirements, tender and reimbursement regimes and distribution channels. This provides an advantage to existing, large-scale players with a long history of local expertise, such as us. We are highly familiar with the regulatory requirements in our key markets and have developed leading expertise in dealing with regulatory and distribution issues, which enables us to minimize the time and cost required to obtain regulatory product approvals while maximizing the number of countries we cover.

Germany, for example, operates a public tender system that covers the majority of prescription generics sales, which necessitates a modestly sized sales team with significant tender experience. In Russia, on the other hand, the distribution of prescription generics products is mostly patient-driven after the first prescription, which significantly increases the need for a larger sales force targeting patients indirectly via doctors. Our local market experience means that we are adept at navigating these and other regimes and are able to serve each market with a tailored sales and distribution approach. Building on our long history and our origins as a pharmacy cooperative, we have developed deeply ingrained relationships with the key distribution channels in our markets, which we believe are difficult to replicate. We successfully pursue different business models tailored to local markets' needs. Our sales forces are trained and experienced in identifying the right marketing strategy for each country, and we maintain a direct sales presence in approximately 30 countries, which allows us to stay close to our customers and distributors and internationalize successful brands.

#### ***Diversified Across Geographic Areas, Therapeutic Areas, Products and Brands***

We are diversified across geographic markets, products, therapeutic areas, customers and suppliers, thereby limiting our exposure to any single product, geographic area and reimbursement system. We market our products in approximately 120 countries with largely uncorrelated end-markets.

With more than 17,000 SKUs, we offer a highly diversified product portfolio and are not dependent on the success of any single product. In the twelve months ended September 30, 2019, the top-ten products by sales in our Generics division accounted for only 17% of Generics sales, and the top ten products in the Branded Products division accounted for only 34% of Branded Products sales. Our product offering is diversified across a large number of therapeutic areas and benefits from a high rate of new product launches, with a strong pipeline for the next four to five years.

The combination of our Generics and Branded Products divisions provides us with significant benefits in terms of diversification and synergies. The pricing of prescription generics is regulated, and volume demand is relatively independent of economic conditions, such that our Generics business has historically delivered strong and stable sales and cash generation. Our Branded Products division, on the other hand, faces fewer regulatory requirements. OTC products can be brought to the market more quickly, and pricing is unregulated and driven by competition. As a result, our highly recognizable brands, customer loyalty and the lack of competition in certain specialty areas provide for attractive pricing for products in our Branded Products division. Moreover, our scale and local market expertise allow us to respond relatively quickly to emerging consumer trends. Our presence in both divisions allows us to deepen our local market expertise and regulatory know-how; exploit economies of scale in production, packaging and marketing; and maintain our long-standing relationships with our distribution channels.

#### ***Diversified and Efficient Manufacturing Footprint Across the Globe***

We have a cost-effective manufacturing footprint that is diversified across 18 manufacturing sites. Our own production facilities account for approximately 55% of our sales, with the balance being outsourced. Furthermore, approximately 69% of our production volume is manufactured in lower-cost countries in

Eastern Europe, Asia and South America. This provides us with a relatively low-cost and highly flexible production base.

Our manufacturing sites are regularly audited and certified by supervisory bodies, and eleven of our sites are required to comply with stringent EU standards as they are located in Europe. Moreover, local production helps provide a natural hedge for currency fluctuations and regulatory restrictions, and at times is an advantage in the marketing of products in certain countries. We continuously seek to improve and manage our costs in order to increase our margins and potential for growth and stable cash flows, and we intend to further streamline and improve certain aspects of our manufacturing operations.

***Attractive Financial Profile with Strong Cash Flow Generation Reinforced by Successful Improvements in Working Capital Management***

We have a stable underlying business that has delivered consistent sales growth and resulted in high cash-flow generation in recent years. Our constant-currency sales increased at a CAGR of 6.5% from December 31, 2016 to September 30, 2019. We had Adjusted Cash Conversion of 85% and 81% for the year ended December 31, 2018, and the twelve months ended September 30, 2019, respectively. Although our Management Adjusted EBITDA margins have already improved (22% and 23% for the year ended December 31, 2018 and the twelve months ended September 30, 2019, respectively), we see significant additional upside in our ability to drive cost savings and further increase our margins. Our business has significant operating leverage and low ongoing liquidity requirements. We have historically experienced only modest seasonal net working capital movements, and management has maintained a high degree of discipline around capital expenditures. As a manufacturer of generics, we typically incur limited development expenses and no material research expenses.

***Highly Experienced Management Team Supported by Committed Sponsors***

We intend to draw from the market expertise, business relationships, knowledge and experience of our Sponsors, Bain Capital and Cinven. Both our Sponsors have strong healthcare expertise and an extensive and successful track record of investing in companies in the healthcare sector. For example, Bain Capital increased sales by 49% within two years and significantly increased the workforce at Bio Products Laboratory, creating a life sciences champion in the United Kingdom, while Cinven combined two large laboratory diagnostics companies, Synlab (Germany) and Labco (France), at the end of 2015, to form Synlab Group (headquartered in Germany), the European champion in laboratory diagnostics. In addition, Cinven in 2012 invested in Mercury Pharma and Amdipharm, and merged the two businesses to create AMCo, a major player in the fragmented generics market in the United Kingdom. Cinven's strategy centered on continued buy and build, further internationalization and applying best practice across both companies, and resulted in AMCo's sale to TSX/Nasdaq-listed Concordia Healthcare Corp for £2.3 billion in 2015. Both Sponsors also have a strong track record of driving cost savings and improvements in margins, while at the same time growing their portfolio companies both organically and through targeted acquisitions.

In addition, Peter Goldschmidt, our chief executive officer, and Mark Keatley, our chief financial officer, have significant experience in the global generics industry, where they have led highly successful growth strategies at major corporations. In particular, Mr. Goldschmidt has over 29 years of experience in the pharmaceutical industry in which he held various senior management positions in Europe, Asia and the United States for the Novartis Group. Mr. Goldschmidt was also the President of Sandoz USA and the Head of North America at Sandoz, where he rapidly expanded the company's generics and biosimilar business, generating revenues of over \$3 billion. He was also the global executive member for Central and Eastern Europe for Sandoz, leading Sandoz to a top-ranking market position in generics and rapidly growing its OTC business. Mr. Keatley served as chief financial officer of Actavis Group for seven years until its sale in 2012. He also has strong expertise in managing growth and transformation strategies in the generics industry and beyond. Mr. Keatley has most recently worked at Albrecht, Prock & Partners, a global strategy consulting firm with a focus on the pharmaceutical and healthcare industries. There, he has advised on multiple major engagements in the generics and broader healthcare sector, including supporting Bain Capital and Cinven during the due diligence process in connection with the Takeover Offer.

STADA also continues to benefit from its deep bench of operational management, which will continue to bring to bear its deep local experience with global scale and expertise.

## **Our Strategy**

We and the Sponsors have developed the following strategies:

### ***Maintain and Grow Market-Leading Positions by Leveraging Scale, Highly Recognizable Brands and Industry Growth Factors***

As an established market leader, we intend to continue to use our scale and highly recognizable brands to reinforce and grow our leading market positions in the key countries and categories in which we operate. We believe that we are well positioned to benefit from global growth factors in the pharmaceutical industry, and as a large player highly diversified across geographic region, products, brands and production, we intend to continue to leverage our scale and broad local expertise to support our base business, improve our margins and expand our geographic footprints along with the markets in which we operate.

### ***Selectively Consider Accretive Acquisition Opportunities***

We have a strong track record of growth, both organically and through focused acquisitions, and we intend to continue this growth in the future, as evidenced by both the Takeda Acquisition and the Walmark Acquisition. Examples of our most recent acquisitions include the acquisition of a majority stake in BIOCEUTICALS, a German manufacturer of the active ingredient and finished product erythropoietin, which is marketed to both third-party customers and STADA sales companies, the acquisition of Ketodol, the acquisition of the rights to the anti-dandruff shampoo Nizoral in Europe and the MENA region, the purchase of trademark rights to Hedrin in Belgium, Spain and Portugal, the product rights for APO-go in Germany and Scandinavia, and the repurchase of all European trademark rights to Ladival. In addition, in 2019, we acquired from GlaxoSmithKline, through our British subsidiary Thornton & Ross, five skin care brands and a pediatric cough remedy in Europe as well as selected markets in APAC and Latin America. We intend to continue to selectively explore strategic acquisitions in the global generics and OTC markets, with a focus on targets that allow us to utilize our existing platform and realize meaningful synergies.

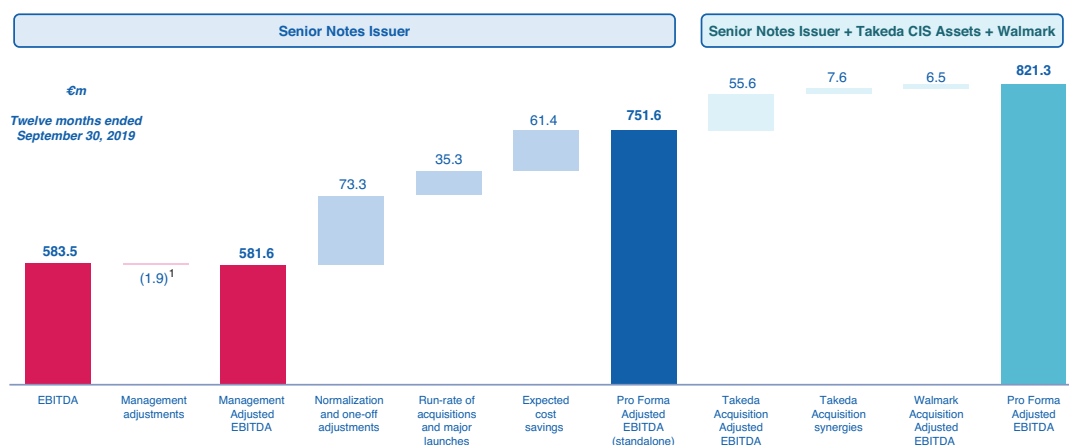
### ***Continue to Grow Our Business, Including by Internationalizing Successful Brands in Our Branded Products Division***

The products in our Generics division comprise our core business, providing us with a stable sales base and strong cash generation. We see significant potential to expand sales growth in this division by expanding in markets with relatively low penetration rates and supplementing our existing portfolio with biosimilars, while also benefiting from global growth trends in the pharmaceutical industry.

At the same time, we intend to build on our key brands and to grow our Branded Products division by strengthening our market shares in our existing geographic region and introducing our local category leaders into new, international markets. Our intention is to continue to gradually increase the percentage of sales and EBITDA generated by our Branded Products division. In addition, we plan to continue developing products for specialty areas, which tend to benefit from attractive pricing, to further expand the scope and improve the profitability of our Branded Products division.

### ***Increase Profitability by Continuing and Expanding upon Management's Strategic Cost Savings Initiatives***

In the last quarter of 2017, our management established a transformation program to improve our operating efficiency and profitability (the "Transformation Program"). The Transformation Program targeted aggregate run-rate cost-savings of more than €200 million, which we aimed to realize through a number of strategic cost saving initiatives. Having commenced the initial implementation phase of the Transformation Program at the end of 2017, we had realized (i) approximately €52 million of cumulative cost savings in the year ended December 31, 2018, and (ii) approximately €92 million of cumulative cost savings in the twelve months ended September 30, 2019. We are continuing the rollout of our Transformation Program and believe we are currently on track to realize additional incremental cost savings of approximately €16.9 million in the year ending December 31, 2019, which would bring our cumulative cost savings to €108.9 million. Through the next phase of our Transformation Program, we expect, based on certain assumptions and our current estimates, to realize additional incremental cost savings of approximately €44.5 million in the coming years. See "Forward-Looking Statements" and "—Summary Consolidated Financial and Other Information—Other Consolidated Financial and Pro Forma Data."



1. Total Management Adjustments include (i) purchase price allocation of €3.6m, (ii) STADA takeover consulting fees of €7.4m and (iii) other adjustments of €(12.9)m

In terms of cost of sales, management has put in place initiatives to improve direct product procurement by renegotiating supply contracts with our highly fragmented supply base and to create operational improvements in manufacturing through insourcing certain third-party manufactured products and streamlining product lines, while also improving our supply chain setup and organization through hub, route and order size optimization. For general and administrative expenses, we believe we can achieve cost savings by unifying our IT landscape across our footprint through consolidating IT systems and contracts, reducing non-personnel general and administrative spending, and optimizing advisory and supervisory board costs, while also optimizing our sales force structures by streamlining our legal entities. In the nine months ended September 30, 2019, we invested approximately €32 million to implement the Transformation Program and develop a five-year strategy for the implementation of future cost-saving measures. Our additional cost-saving measures target our cost of goods sold, selling, general and administrative expenses, and research and development expenses, as well as improved efficiency in support functions and customer service operations.

### ***Maintain Financial Discipline to Support Deleveraging***

We intend to maintain a high focus on continuing to improve cash flows, supported by, among other things, rapid EBITDA growth resulting from management's and the Sponsors' cost-saving initiatives on top of global growth trends in the pharmaceutical industry. For our business, which benefits from significant operating leverage and low ongoing liquidity requirements, we intend to maintain discipline in capital expenditures broadly in line with historical capital expenditures. We expect improved cash flows and discipline in capital expenditures to provide a strong liquidity cushion for our ongoing business needs, which was further bolstered by our €400 million Revolving Credit Facility and the long-dated maturity profile of our other principal sources of debt financing. In terms of risk management, we are partly naturally hedged for transaction currency fluctuations where our production facilities are located in the same country as the end-consumer, but we also intend to continue to implement exchange rate hedging policies through natural hedge strategies and derivatives. As a result, we believe that the successful execution of our strategies will allow us to progressively de-lever and further improve cash flow generation. Notwithstanding our intention to de-lever and our focus on organic growth, we also intend to selectively consider acquisition opportunities as and when they arise.

### **Our History**

Our historical roots can be traced back to a pharmacist's cooperative founded in 1895 in Dresden, Germany, when a group of pharmacists started manufacturing pharmaceutical products under the name Standardarzneimittel Deutscher Apotheker. Over the course of our over 120-year history we have leveraged our sustainable approach to business and a strategy geared for the long term to expand from a small pharmaceutical undertaking focused on its domestic German market, into a leading player in the international healthcare and pharmaceutical markets:

- In 1957, we transferred our headquarters to its current location in Bad Vilbel.
- Shortly thereafter, in 1961, we started shifting our manufacturing activities from local production by our member pharmacies to centralized production facilities in Bad Vilbel.

- At the beginning of 1970, we converted our corporate form from a cooperative into a corporation to facilitate capital formation for our future expansion.
- In 1975, we expanded our product portfolio by venturing into the nascent generics market.
- In 1986, we leveraged our access to capital and began our expansion into international markets, first through the purchase of subsidiaries in our neighboring countries, Switzerland and Austria, and later through acquisitions in Asia, including Hong Kong in 1992.
- In 1996, we acquired ALIUD PHARMA GmbH in Germany, which allowed us to expand our generics portfolio to a second, separate product line. In 1997, we branched out further into the Czech Republic and France.
- In October 1997, we consummated our initial public offering (“IPO”) and listed our shares for official trading on the stock exchanges in Frankfurt and Düsseldorf. Within five years of our IPO, our shares were included in the renowned MDAX segment of the Deutsche Boerse Group. Today, our shares are listed on Xetra and the stock exchanges of Frankfurt, Berlin, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart.
- By 2005, we had accelerated our international expansion and acquired companies in Thailand, Ireland, the Philippines, the United Kingdom, Russia, Portugal and Serbia. In addition, we purchased several portfolios of Branded Products, as well as the rights to individual Branded Products.
- In 2006, for the first time our sales exceeded the threshold of €1 billion.
- In 2008, the introduction of SILAPO, a pharmaceutical product used to treat anemia resulting from chronic kidney failure and chemotherapy, marked our first commercialization of a biosimilar. In the following years, we began in-licensing biosimilars from highly specialized suppliers, in order to develop our biosimilars portfolio in a cost-effective way.
- In 2013, we moved into the field of individualized drug therapy with the introduction of multiple DNA tests, and thereby developed our diagnostic portfolio. Over the course of the year the offering was expanded into a diverse range of self-tests. Furthermore, with the acquisition of the British OTC supplier Thornton & Ross, we took another step in developing our increasingly important Branded Products portfolio.
- In 2014, for the first time our sales exceeded the threshold of €2 billion.
- In 2017, the Sponsors, Bain and Cinven Funds, acquired a controlling interest in STADA with the aim of consolidating its market-leading positions, further expanding its business and increasing profitability.
- In 2018, the Sponsors increased their controlling interest further in connection with the Delisting Offer. As of the date of this offering memorandum, the STADA shares are listed on the regulated market of the Düsseldorf Stock Exchange and certain other exchange-regulated trading venues.

## **Our Products**

### ***Overview***

#### ***Generics and Branded Products***

We are a leading international healthcare and pharmaceuticals company which develops, manufactures and markets branded and unbranded generics. Generics are the chemical and therapeutic equivalents of reference branded originator drugs and can be introduced into the market once the patents on the originator drugs have expired. Despite their high quality, generics are substantially less expensive than the originator products because the original research costs and clinical trials do not have to be repeated.

In our Generics division, we sell unbranded generics mostly comprising prescription products, thereby offering a lower-cost alternative to the substantially more-expensive originator products. In most countries, the pricing of prescription products is regulated either directly or indirectly through reimbursement rates payable by the health insurance system. Unbranded generics are typically labeled with the name of their manufacturer and marketed under the chemical name of their active pharmaceutical ingredient. The chemical name is also referred to as the generic name or International Non-Proprietary Name (“INN”). Examples of unbranded generics that we market under their chemical name include Tilidine Naloxone (pain) and Atorvastatin (elevated cholesterol level).



Our range of Branded Products is diverse. It mainly includes branded generics that can be sold over the counter, which are also referred to as branded OTC or nonprescription products. OTC products can be purchased without the supervision of a healthcare professional such as a physician, and without a prescription. These drugs are tried and tested products that have been on the market for many years and are not typically protected by patents but rely on brands to differentiate the products. Examples include sunscreens, cough and cold medicines, and pain relievers. Additionally, our Branded Products portfolio features non-generic pharmaceutical products such as DNA tests, cosmetics, glucose meters and vaping products. Lastly, our range of Branded Products comprises a small range of branded prescription generics. Our best-known brands include Ladival (OTC), Grippostad (OTC), Covonia (OTC) and APO-go (prescription only). Prices of Branded Products are much more flexible than those of Generics and can be set on the basis of the competitive advantage a product has over its competitors.

#### *Categorization*

Whether products are categorized into the Generics or Branded Products division depends on our marketing strategy. The marketing of prescription generics is generally price-driven, and where we decide to compete mainly on that basis and market generics under their chemical name, we classify them into the Generics division. In some cases, we assign generics to the Branded Products division because we are able to compete on the basis of product quality, brand awareness and brand loyalty among customers, such that we are able to charge premium prices.

In most countries, our portfolio of Branded Products is predominantly comprised of OTC products such as Ladival (suntan), Grippostad (for coughs and colds) and Aqualor (for sinus infections and sore throats). In the United Kingdom, however, our range of Branded Products also includes major prescription products such as APO-go (for Parkinson's disease). Our OTC products and medical devices are globally assigned to the Branded Products division.

#### *Delivery Forms and Packaging*

Our product portfolio comprises a broad range of dosage forms such as tablets, capsules, suppositories, dry powder for reconstitution as suspensions and liquids. We offer a large spectrum of packaging sizes and various delivery forms, utilizing either immediate or sustained release delivery. We generally do not market injectables.

#### *Diversification Across Therapeutic Areas*

Our pharmaceutical product offering is well diversified across therapeutic areas and focuses on the following categories: allergies and hay fever; diagnostics; diabetes; coughs and colds; fitness and vitality; sore throats; skin diseases; cardiovascular diseases; gastrointestinal conditions; muscle and joint conditions; histamine intolerance; lactose intolerance; stress relief and sleep disorders; menstrual dysfunction and the menopause; pain and fever relief; pregnancy and lactation; medical skincare sun protection; and metabolic conditions.

#### *Diversification Across Products*

With more than 17,000 SKUs on offer, we carry a highly diversified product portfolio. The breadth of our portfolio also ensures that we are not dependent on the success of any single product, with no single product accounting for more than 3% of sales in the year ended December 31, 2018. In the twelve months ended September 30, 2019, the top ten products by sales in our Generics division accounted for only 17% of Generics sales, and the top ten products in the Branded Products division accounted for only 34% of Branded Products sales. Our product offering also benefits from a healthy rate of replenishment. We have released on average 600 new products (primarily in our Generics division) per year since 2014, with a strong pipeline for the next four to five years. See “—Research and Product Development.”

#### *Diversification Across Geographic Regions*

Our SKUs are marketed in approximately 120 largely uncorrelated markets in Europe, the MENA region, Asia, Australia and the Americas, which provides us with a high degree of diversification across geographic regions.

## Our Generics Portfolio

### Overview

In our Generics division, we sell a well-diversified portfolio of unbranded generics mostly comprising prescription products. Generics accounted for €1,382.8 million, or 59%, of our sales in the year ended December 31, 2018.

### Top Ten Generics

Our portfolio of Generics includes numerous market leaders in mature product categories.

The table below shows our top ten Generics products by sales in the twelve months ended September 30, 2019, including their respective market share and market position in selected markets in major geographic regions for the year ended December 31, 2018, according to IQVIA.

Product Name	Therapeutic Area	Twelve Months Ended September 30, 2019	As of and for the Year Ended December 31, 2018 Country:			
		Sales  (in € million, unaudited)	Market Position	Market Share		
			(unaudited)			
Epoetin Zeta . . . . .	Anemia	67.7	Germany: #1	57%		
Tilidine Naloxone . . . . .	Pain	37.8	Germany: #1	87%		
Atorvastatin . . . . .	Elevated cholesterol level	27.1	Belgium: #1	42%		
			Spain: #3	12%		
			Italy: #6	9%		
Omeprazole . . . . .			Gastric ulcer / reflux	22.5	Germany #4	10%
			Belgium: #1	36%		
			Spain: #5	8%		
			Italy: #4	13%		
Pantoprazole . . . . .	Gastric ulcer / reflux	19.7	Spain #4	7%		
			Austria #8	5%		
Diclofenac . . . . .	Pain, anti-inflammatory	19.4	Russia: #1	35%		
Paracetamol . . . . .		Pain	15.8	Spain: #7	4%	
			Italy: #9	2%		
			Germany: #4	8%		
			Belgium: #3	19%		
			Netherlands: #6	5%		
			Ireland: #2	25%		
			Russia: #4	14%		
Bisoprolol . . . . .	High blood pressure	15.6	Luxembourg: #2	5%		
			France: #6	2%		
			Germany: #4	1%		
			Russia: #7	4%		
			Italy: #3	11%		
			Bulgaria: #6	3%		
			Belgium: #1	73%		
			Austria: #3	14%		
			Ireland: #5	9%		
			Portugal: #7	3%		
			Sweden: #5	4%		
			Netherlands: #6	1%		
			Denmark: #1	27%		
			Luxembourg: #1	68%		
Fentanyl . . . . .			Pain	15.5	Germany: #2	17%
					Spain: #5	6%
			France: #8	2%		
			Czech Republic: #7	6%		
			Netherlands: #4	6%		
			Switzerland: #3	6%		
			Austria: #6	4%		
			Belgium: #2	17%		
			Finland: #5	2%		

Product Name	Therapeutic Area	Twelve Months Ended September 30, 2019 Sales	As of and for the Year Ended December 31, 2018 Country:	
		(in € million, unaudited)	Market Position	Market Share
			(unaudited)	
Enalapril . . . . .	High blood pressure	15.3	Russia: #3	10%
			Spain: #3	8%
			Italy: #2	22%
			Germany: #1	48%
			France: #4	12%
			Austria: #4	5%
			Sweden: #3	23%
			Switzerland: #3	6%
			Netherlands: #5	3%
			Portugal: #3	11%
			Denmark: #3	18%
			Belgium: #1	74%
Luxembourg: #1	100%			

### *Competitive Drivers*

With prescription generics pricing regulated, the key determinants of success in most of our Generics markets are price (particularly where contracts are put out to tender), as well as scale, a competitive cost structure, local market expertise, established distribution channels, strong relationships with suppliers and portfolio breadth.

We were the fifth-largest generics company in Europe as of December 31, 2018, and the resulting scale advantage, together with our efficient manufacturing footprint across lower-cost countries, our extensive local market expertise that we have acquired since our inception in 1895 and our deeply ingrained relationships with suppliers that we have established over our long history all contribute to this leading position in the Generics market. As a one-stop shop, we are also committed to providing a full portfolio in most of our markets. This gives us a competitive advantage, as customers often request a multitude of different dosage forms and strengths when placing orders for Generics, which we can reliably supply, whereas many of our competitors do not have this capability and thus cannot fulfill these orders. The breadth of our portfolio also helps us to achieve economies of scale in production, packaging and marketing.

### *In-licensed Products*

With respect to certain patented originator products and biosimilars we have entered into license agreements with highly specialized, high profile suppliers under which distribution rights are licensed to us on attractive commercial terms. Due to our local market expertise, established distribution channels and geographic reach into approximately 120 countries, we are an in-licensing partner of choice.

In 2015, for the first time ever, the number of newly expired patents on biologics in Germany exceeded newly expired patents on chemical synthetic products, which contributed to the significant increase in the global generics market from 2014 to 2015. In addition, it is estimated that twelve of the best-selling biologics in terms of sales will have lost their patent protection by 2020. We believe that this is evidence of a trend toward the increasing importance of biosimilars in the future global generics market, which is partly due to the fact that biosimilars can be produced at significantly lower cost than the original biologics. This means that these products can substantially reduce the cost pressure faced by the global national healthcare markets and insurance carriers. As a result, we are committed to the future growth of biosimilars and believe that in-licensing constitutes a relatively low risk and cost effective step towards developing our own biosimilars portfolio.

We currently market two biosimilars: SILAPO, an epoetin biosimilar; and Movymia, a teriparatide biosimilar. In addition, we have in-licensed three other biosimilars, including adalimumab (a biosimilar to Humira), pegfilgrastim and bevacicumab. Furthermore, we have entered into an agreement with Xbrane, a Swedish biosimilar company, for the co-development of ranibizumab.

We intend to grow our Generics portfolio through in-licensing and co-development strategies aimed at the expansion of our biosimilars offering.

## *Our Branded Products Portfolio*

### *Overview*

Our well diversified portfolio of Branded Products includes, among others, pain relievers, cough and cold medicine, sunscreens, cosmetics, rhinitis medicine, probiotics and dietary supplements, sleeping aids, diagnostics, glucose meters, vaping products and branded prescription generics. Branded Products accounted for €948.0 million, or 41%, of our sales in the year ended December 31, 2018.

### *Pain Relief*

One of the chief categories in our product portfolio is pain relief, and we carry products targeting general pain, migraines, fever-induced pain, toothache, muscle pain, menstrual pain and others. We sell many delivery forms including tablets, syrups, suspensions and suppositories. Some of our best-known brands include Mobilat, Ibudolor, Neuronal and Pfeil.

### *Cough and Cold Medicines*

Our product range comprises a wide variety of cough and cold medicines, which can be administered as effervescent tablets, syrups, sprays, gels and capsules. Our key brands in the category include Grippostad, which ranks first in Germany; Covonia, which is one of the most recognizable brand names in the United Kingdom; and Aqualor, with respect to Russia.

### *Sunscreens*

We sell sunscreen products in various delivery forms, including creams, sprays, lip balms and sticks. Our key brand in the medical skincare sun protection space is Ladival, which is the first-in-class product in Germany in terms of brand recognition among pharmacists. We developed Ladival over 30 years ago and in 2013 we transferred the European trademark rights to a third party; we have since repurchased those rights. Many of our competitors' sunscreen products contain synthetic compounds derived from petroleum and natural gas (petrochemicals) which are absorbed by the skin. Our sunscreen offering is differentiated in that it is derived from largely natural sources and is free from artificial fragrances, coloring, petrochemicals and parabens which are known to cause allergies in some cases. In compliance with this positioning, we distribute our Ladival products exclusively through pharmacies.

### *Cosmetics*

Under the Claire Fisher brand, which we acquired in 2014, we market age-control products, moisturizers, exfoliators, creams, tonics, lotions, shower gels and liquid soaps. As in the case of our sunscreen products, we mainly target health-conscious consumers who are drawn to mostly natural ingredients. Accordingly, we developed our portfolio in close collaboration with dermatologists and other experts and took great care in ensuring that all our cosmetics products are free from animal-derived ingredients, nanotechnology, genetically modified plants, artificial colors, petrochemicals and parabens.

### *Rhinitis Medicine*

Rhinitis medicine alleviates the symptoms of allergic rhinitis (commonly known as hay fever). Allergic rhinitis is inflammation of the inside of the nose caused by an allergen such as pollen, dust, mold or flakes of skin from certain animals. Our most recognizable brands include Aqualor, Snup, Cetirizin and Loratadin.

### *Probiotics and Dietary Supplements*

Our portfolio of Branded Products also includes probiotics and dietary supplements aimed at the self-improvement market. Examples include vitamin supplements, lactose digestants, magnesium supplements and immune system boosters.

### *Diagnostics*

In our diagnostics business, we market high-quality tests and testing devices both to healthcare professionals and consumers. We believe this responds to an emerging trend, as consumers are becoming increasingly health conscious and concerned with disease prevention. Our self-tests can be applied at home and provide consumers with a quick and simple way to determine whether symptoms they experience may

be a first indication of a new or recurring illness. Our portfolio includes tests to detect colorectal cancer, iron deficiency, gluten intolerance, bacterial infections and the menopause. Tests offered for professional use include DNA tests to determine the efficacy of breast cancer therapies and the side effects of anti-cholesterol therapies, as well as to tailor therapies for myocardial and stroke prophylaxis and antidepressants to the individual requirements of each patient. In addition, we sell Ebola tests which provide a quick and reliable check for this disease.

We also offer glucose meters and various accessories to enable diabetic patients to monitor and treat their illness both at home and on the move.

### *Branded Prescription Generics*

In certain cases, we assign prescription generics to the Branded Products business. This occurs mostly where we can charge premium prices based on product quality, brand awareness and brand loyalty and where there is a general lack of competition. One example is APO-go, which is a category leader in the treatment of Parkinson's disease in the United Kingdom.

### *Top Ten Branded Products*

Our broad and well diversified portfolio of Branded Products includes numerous mature-category leaders in local markets, many of which have not yet been internationalized. We believe this provides us with further potential to grow our sales organically.

Approximately 75% of the sales generated by our top 30 Branded Products in 2017 were due to products ranking as one of the top three in their respective countries.

Set forth below are our top ten Branded Products by sales in the twelve months ended September 30, 2019, including their respective market share and market position in selected markets for the year ended December 31, 2018 (except as otherwise indicated), according to IQVIA:

Product Name	Therapeutic Area	Twelve Months Ended September 30, 2019 Sales (in € million, unaudited)	As of and for the Year Ended December 31, 2018 Country:	
			Market Position (unaudited)	Market Share
APO-go . . . . .	Parkinson's	74.3	United Kingdom #1	99%
Bortezomib . . . . .	Anti-cancer medication	50.3	Germany #2 <sup>(1)</sup>	N/A
Zoflora . . . . .	Household disinfectant	40.1	United Kingdom #1	55%
Grippostad . . . . .	Cold	38.4	Germany #1	28%
Aqualor . . . . .	Rhinitis/sore throat	30.6	Russia #1	39%
Snup . . . . .	Rhinitis	27.5	Russia: #1	8%
Vitaprost . . . . .	Prostate diseases	25.6	Russia: #2	16%
Nizoral . . . . .	Anti-dandruff shampoo	24.5	Italy: #1	16%
			Germany: #2	13%
			Poland: #1	31%
			Portugal: #1	28%
			Belgium: #1	27%
			Switzerland: #5	5%
			Czech Republic: #1	30%
			Hungary: #1	60%
			Slovakia: #1	25%
			Austria: #5	10%
Hirudoid . . . . .	Anti-coagulant	23.7	Italy: #1	29%
Ladival . . . . .	Sun lotion	19.6	Germany #1	19%

(1) Bortezomib was launched in April 2019. Accordingly, market position is shown as of and for the six months ended June 30, 2019.

### *Portfolio Strategy*

In contrast to our Generics division, we generally pursue a selective portfolio approach in the Branded Products division. As a result, we analyze each geographic market and only include those products in our portfolio which we believe are in low supply despite strong demand. Using our judgment, we focus only on the most recognizable brands, which are well known to our end-customers and ideally the local market leaders, and have growth opportunities largely independent of local market trends solely on the basis of promotional and sales support.



### *Competitive Drivers*

We believe the key drivers behind competition in the Branded Products space include brand recognition, customer loyalty, established distribution channels and recommendations from pharmacists. We believe that we are well positioned to compete in this market in light of our attractive portfolio of Branded Products, which includes category leaders in mature markets.

### *Trends in Sales Mix*

In recent years, the sales contribution from our Branded Products has remained stable at approximately 41% of total sales which represents a slight increase from a Branded Product share of 40% in 2016. This shift in our sales mix resulted mainly from organic growth, as well as our targeted efforts to increase sales in our Branded Products division through acquisitions. Our acquisition of Thornton & Ross in the United Kingdom, for example, provided us with a leading platform to sell our Branded Products in this market. We intend to continue to focus our growth efforts on Branded Products, as they face significantly fewer regulatory requirements than Generics. To a lesser extent, the shift was driven by the reclassification of certain Generics into Branded Products.

We believe the combination of Generics and Branded Products provides significant benefits in terms of synergies. Our presence in both divisions allows us to deepen our local market expertise and regulatory know-how, achieve economies of scale in production, packaging and marketing, and intensify our long-standing relationships with our distribution channels.

### **Our Customers**

We sell our products to a diverse customer base that includes consumers, doctors, pharmacies, hospitals, mail order companies, buying groups, wholesalers and other service providers in the healthcare market, as well as public or private health insurance organizations. The importance of these customer groups varies by country. Germany has a well-established tender scheme in place, such that the key purchase decision is made by the public health insurance system. In our Belgian business, which mostly focuses on Generics, the most important customer group is the doctors writing prescriptions. In Italy and Spain, pharmacies have significant discretion to decide which medication is dispensed, such that they are considered the key decision-makers. In Russia, where our product portfolio is heavily weighted toward Branded Products, our key customers are consumers in the self-payment market. Germany's public tendering system covers the majority of generics sales, in which we have operated successfully. In Italy, the United Kingdom and Vietnam, tenders are used for procurement by public institutions such as hospitals. For the year ended December 31, 2018, one customer accounted for €325.0 million, or 14%, of our sales. In the same period, no other single customer accounted for more than 10% of our sales.

### **Our Suppliers**

We believe that we do not materially depend on any single supplier. We seek to source our active pharmaceutical ingredients locally in each of our markets. Most of our supply contracts include mechanisms aimed at reducing our financial exposure, such as price escalation clauses (which link procurement prices to current selling prices) and specific procurement prices for specific sales volumes.

### **Procurement, Production and Quality Management**

We maintain three supply chain hubs at our locations in Bad Vilbel (Germany), Vrsac (Serbia) and Moscow (Russia), which carry out the centralized procurement planning for our most important products. In each hub we have a specialized supply chain management team, as well as the appropriate infrastructure.

We generally have significant flexibility in our supply chain management and plan our pharmaceuticals production with a view to continuous cost improvement. As a result of our large product portfolio, which includes more than 800 active pharmaceutical ingredients and more than 17,000 SKUs to accommodate various dosage forms and package sizes, we rely on a large, international network of internal and external resources for our supply chain and pharmaceuticals production.

As a result, we have been able to outsource the production of raw and auxiliary materials involved in the production of our pharmaceuticals to offshore suppliers based in Asia and other markets, which we believe deliver good quality at competitive prices. In order to efficiently manage our procurement of raw materials

from these suppliers, we maintain specialized procurement offices in Shanghai (China) and Mumbai (India).

As a manufacturer, we are subject to fluctuations in the market prices of our raw and auxiliary materials. Additionally, our costs depend significantly on the prices we are able to negotiate with our contract manufacturers. Under our manufacturing contracts, suppliers typically bear a portion of the loss if our gross margin decreases as a result of lower sales prices. The pass-through mechanism that we typically rely on is a price escalation clause which links the procurement prices we pay to our selling prices. In other cases, we rely on renegotiations or agree specific procurement prices for specific sales volumes, such as volumes that are put out to tender by public health insurance organizations in the context of discount agreements (*Rabattverträge*). Discount agreements are entered into between pharmaceutical companies, such as us, and insurance carriers, such as national social insurance schemes. In a discount agreement the pharmaceutical company agrees to supply certain pharmaceuticals to the insurance carrier or its customers at a significant discount in exchange for exclusivity in the relevant product category. Discount agreements typically have a term of one or two years.

In recent years, we have gradually increased the share of in-house production, shifting production volumes from our contract manufacturers to our own production facilities. Furthermore, in 2019, we manufactured 69% of our production volume in lower-cost countries in Eastern Europe, Asia and South America. This provides us with a relatively low-cost and highly flexible production base. The expansion of cost-effective in-house production, coupled with the flexible make-or-buy approach described below, has helped us realize both structural cost advantages and higher capacity utilization, which resulted in lower unit prices.

We take a flexible approach to our make-or-buy decisions. This means that we regularly compare our in-house production costs to offers we receive from third-party manufacturers and are prepared to outsource production where this would result in sustainable cost savings. In the past, our decision to gradually insource production capacity has helped us realize higher capacity utilization. Additionally, the fact that a large proportion of our manufacturing facilities is located in lower-cost countries has provided us with structural cost advantages compared to some of our competitors. Together, these factors have contributed significantly to the decrease in unit costs that we have realized in recent years.

Each year we invest in our production facilities and test laboratories in an effort to ensure they comply with the applicable regulations and technical norms. In 2018, our investments in the expansion and modernization of our production sites and facilities, as well as test laboratories, amounted to €22.8 million.

### ***Highest Quality and Safety Standards***

Our global control management is located centrally through our top operating company, STADA Arzneimittel AG.

As an international healthcare company, we have established high standards for the quality of our raw materials, products, services and working conditions. The quality standards we adhere to, both in our own manufacturing sites and those of external suppliers and contract manufacturers, are in full compliance or even exceed applicable legal and regulatory requirements. Our compliance with both the statutory requirements and our internal standards is reviewed comprehensively each year as part of regular audits by our global quality management teams.

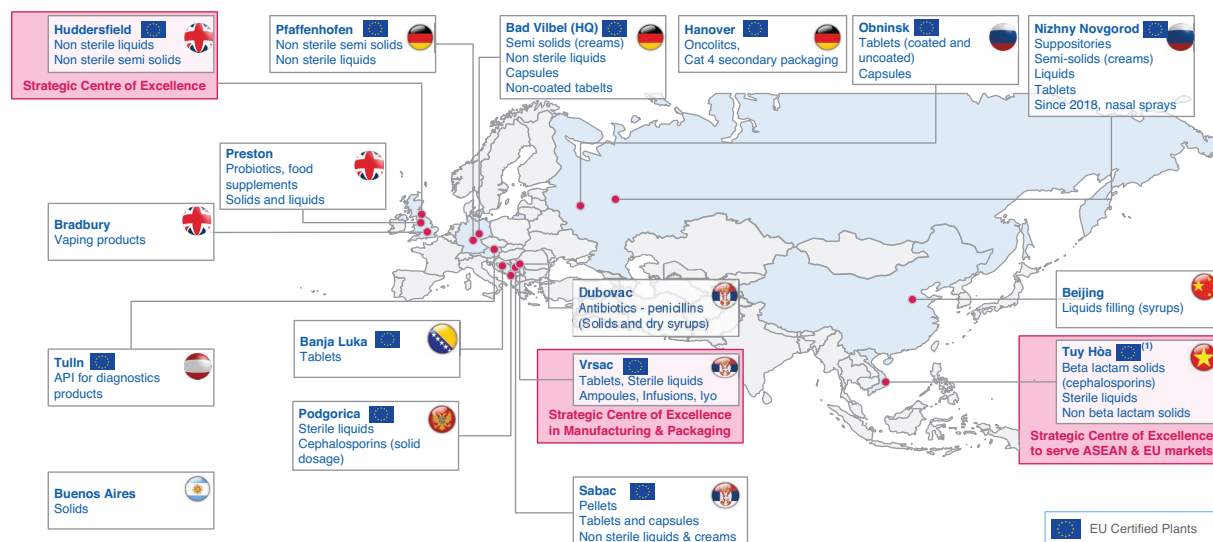
In addition, the competent national authorities of each country where we operate carry out inspections on a recurring basis. Within the European Union, such inspections typically take place every two or three years. Outside the European Union, we often go beyond national requirements and inspections and additionally apply for EU Good Manufacturing Practice compliance inspections (also known as EU GMP compliance inspections). In the course of these inspections, the responsible authorities audit the compliance of our relevant non-EU production facilities with the relevant EU GMPs. Each positive inspection report results in a three-year extension of our existing EU import licenses for products manufactured in these facilities. As a result, 7 of our 11 non-EU production facilities are approved for the production and export of certain pharmaceutical dosage forms into EU countries (Banja Luka, Nizhny Novgorod, Obninsk, Podgorica, Sabac, Tuy Hòa and Vrsac).

In addition to our compliance with the applicable legal requirements, we hold international certifications in accordance with external quality management systems. Accordingly, at numerous production sites, we focus not only on GMP standards but also on the relevant requirements of the International Organization for Standardization.

## Property, Plant and Equipment

### Manufacturing Facilities

We have a cost effective manufacturing footprint that is well diversified across 18 manufacturing sites as of September 30, 2019.



- (1) As of the date of this offering memorandum, one of our manufacturing facilities located in Tuy Hòa, Vietnam, is in the validation process and is expected to become operational in January 2020.

Our manufacturing sites are regularly audited and certified by supervisory bodies, and even some of our non-European manufacturing facilities adhere to EU manufacturing standards (EU Good Manufacturing Practice), making them eligible to import to the EU. As a result, we have a strong performance and compliance track record. Moreover, local production provides a natural hedge for currency fluctuations and regulatory restrictions, and at times is an advantage in the marketing of products in certain countries. We continuously seek to improve and manage our costs in order to increase our margins and potential for growth and stable cash flows, and we intend to improve certain aspects of our manufacturing operations to achieve our ongoing cost savings initiatives.

### Sales and Marketing

The sale and distribution of pharmaceutical products such as branded and unbranded generics is regulated in most countries. Because such regulatory regimes are highly fragmented, competitors trying to enter a new market have to navigate a variety of complex regulatory requirements, tender and reimbursement regimes, and distribution channels. This provides a competitive advantage to existing players with scale and local expertise, such as us.

Building on our extensive local market expertise, we have decided to put in place decentralized marketing teams, and the size and organization of our sales force is tailored to the local environment in each market. In Germany, for example, we do not have a dedicated sales force, as the majority of our business is won through tenders. As a result, our German marketing team is distinguished mostly by its sophisticated tender management. In Belgium, our sales force targets primarily doctors who are the key decision-makers in the market, whereas our sales teams in Italy and Spain place their emphasis on pharmacies. In Russia, we market directly to consumers in the self-payment market. As part of our centralized supervision, our marketing teams research each market extensively and carefully select the products we decide to offer as part of our country portfolio, as well as their positioning. Our marketing campaigns in the United Kingdom, for instance, emphasize the filters contained in our Ladival sunscreen products, whereas the marketing of Ladival in Spain focuses on the cosmetic benefits of its ingredients. We believe the combination of centralized supervision and physical proximity to our customers provides us with a powerful sales and marketing structure.

We have a direct sales presence in approximately 30 countries where we sell our products through our own marketing teams, subsidiaries and branches, which allows us to stay close to our customers and distributors. This includes all major European markets such as Germany, the United Kingdom, France, Italy and Spain.

In addition, we maintain a direct sales presence in growth markets in the MENA region (in the United Arab Emirates), Asia (including Russia, Kazakhstan, China, Vietnam and the Philippines), South America (Argentina) and Australia. Our decision to establish a direct sales presence is also driven by our local market expertise and is a function of the product portfolio we are offering in a given market. In geographic regions where we do not have a direct presence, we partner with recognized local companies. Including exports, our products were marketed and sold in approximately 120 countries in the nine months ended September 30, 2019.

Selective acquisitions are part of our strategy and are also used to expand our existing sales network through vertical integration. For example, in 2016 and 2017, respectively, we acquired the British company Natures Aid Limited to strengthen our presence in branded products in the British market, and the Serbian pharmaceutical wholesaler Velexfarm d.o.o. Beograd to strengthen our business activities in the Serbian market. In addition to growth opportunities, we seek to identify products and markets that are subject to particularly cumbersome regulatory requirements and to restructure our product portfolio to further reduce our dependency on state regulated and therefore price regulated healthcare systems.

## Our Brands

We have a large portfolio of recognizable and well regarded brands. Set forth in the chart below are our largest brands by sales, together with their market position in each relevant market.

Specialty		Skin Treatments / Cosmetics / Further indications		Cough and Cold
#1 Parkinson's treatment	 Apomorphine	#1  Hedrin	#1  Triahecam	#1  SNUP
Vitamins, Minerals & Nutritional Supplements				
#1  Fulium dailyD3		#1  Lodival	#1  Lodival	#1  Grippostad
#1  Curazink		#1  Zaldiar	#2  HIRUDOID	#2  LSDAN
#1 #2  DAOSIN	#2  PALEXIA	#3  Cortef	#2  Beraprost	#1  DAOSIN

(1) We have the second largest market share in Poland, including Tramal (#3 on a stand-alone basis) and Zaldiar (#6 on a stand-alone basis) combined.

While we hold ownership rights to most of our brands, some of them are used under license. We in-license certain of our Generics, none of which individually represents a material portion of our business. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Off-Balance Sheet Arrangements.”

## Material Contracts

Other than as disclosed elsewhere in this offering memorandum, we have not entered into any contracts outside the ordinary course of our business that we consider material.

## Research and Product Development

### Research

In order to limit our research and development costs and avoid the risks inherent in the marketing of newly developed products, our strategy is to focus on the development and marketing of generics, neither of

which requires any material spending for new active pharmaceutical ingredients. Because our business does not require any material proprietary research, we do not typically incur material research expenses.

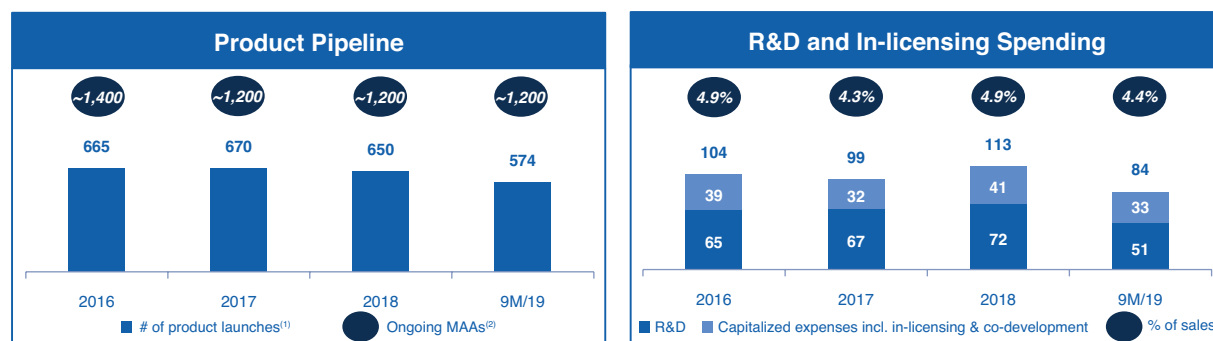
### Product Development

As the marketing of our products normally requires the prior grant of a marketing authorization issued by the competent regulators, we incur development costs in connection with the approval process. Given our global product marketing, we are required to navigate a large number of different approval processes. We generally seek to realize synergies and obtain marketing authorizations through supranational processes, which require only a single dossier and cover a large number of countries, particularly in the European Union. Approval procedures outside of the European Union are carried out, where possible, on the basis of the EU dossier relating to the same product.

To ensure the optimal utilization of our resources and the effective management of our international approval processes, we have installed a centralized development center in Bad Vilbel (Germany) and Vrsac (Serbia). We also cooperate with external third-party developers in Europe and Asia to optimize the management of our resources and reduce any technological gaps. In select cases, we also rely on a global network of external development partners, through which dossiers or approvals are acquired.

### Product Launches

Building on our tried and tested platform, we have released on average more than 600 new products each year since 2014. The large majority of our new products are Generics, whereas new product launches in the Branded Products division only make up a small share. We believe the number of our product launches is high compared to most of our competitors, which is evidence of our strong capabilities in the development process and our local market expertise. Our strong performance was also supported by continued investment in development costs. New product launches contributed more than 4% (approximately €81.3 million) to our sales for the nine months ended September 30, 2019. The chart below shows our product launches in each of the years ended December 31, 2016, 2017 and 2018 and the nine months ended September 30, 2019, as well as our research and development costs in the corresponding periods:



(1) As of December 31 of each fiscal year presented and September 30 for the nine months presented.

(2) Represents the number of marketing authorizations and marketing applications submitted in the periods presented.

Due to the lengthy regulatory approval process typical of the pharmaceutical industry, we consider our development pipeline an important indicator of our future sales. As of December 31, 2018, we were pursuing more than 1,200 approval procedures for over 160 active pharmaceutical ingredients and compounds in more than 50 countries. In particular, we have a large product pipeline in small molecule Generics as we aim to be a one-stop shop and provide the full range of drugs that go off-patent. Most of our pending applications relate to approvals for Generics within the European Union.

### Intellectual Property

#### Trademarks

In each market where material sales of any of our major Branded Products are made, we register a trademark. In addition, we continuously register trademarks in respect of new products and renew the trademarks that are about to expire. Our principal trademarks include APO-go, Aqualor, Grippostad, Snup, Vitaprost, Fultium, Ladival, Care, Covonia, Levomecol, Hirudoid, Zoflora and Hedrin.



### ***Patents***

As a manufacturer of generic pharmaceuticals, we are not materially dependent on patents. Our key patents include a solid pharmaceutical composition comprising Tilidine hydrochloride.

### **Employees**

#### ***Long-term Personnel Policy***

Through their extensive expertise and strong commitment, our employees make a substantial contribution to our continuing success. As a result, our personnel policy focuses on long-term retention and is designed to support the development of all of our employees. In terms of training, we offer language skills support, specialist workshops, seminars and extra occupational study programs. In addition, we offer development and support programs tailored to various career stages, and individual career planning. Examples of this include exchange programs between German and foreign subsidiaries, as well as management programs. All personal development measures aim to continuously provide the skills needed both now and in the future, and to fill management and expert positions from within our own ranks as much as possible.

#### ***Development of the Number of Employees***

In 2018, we had an average of 10,247 employees, compared to 10,832 in 2017 and 10,839 in 2016. As of December 31, 2018, 2017 and 2016 the number of STADA's employees was 10,416, 10,176 and 10,923, respectively. The decrease in STADA's average employee numbers in 2018 was mainly due to the deconsolidation of STADA Vietnam. The increase of the number of employees at year-end 2018 compared to year-end 2017 was due to the consolidation of the German company Norbitec GmbH as part of the majority acquisition of BIOCEUTICALS Arzneimittel AG and STADA Hungary LLC. In addition, the rise in the number of employees was also attributable to expansion in Marketing and Sales at the Spanish subsidiary Laboratorio STADA S.L.

In 2018, STADA had an average of 1,125 employees in Germany, compared to 1,118 in 2017 and 1,164 in 2016. The average number of employees located at STADA's group headquarters in Bad Vilbel, Germany, was 903 in 2018, compared to 911 in 2017 and 908 in 2016. The average number of employees outside Germany was 9,122 in 2018, compared to 9,714 in 2017 and 9,675 in 2016.

As of December 31, 2018, women held approximately 52% of all management positions within the Group. STADA believes that it has healthy relationships with its workforce, and during the periods under discussion there have not been any material labor disruptions.

### ***Pensions***

We operate a number of pension schemes, including defined benefit schemes in certain countries in which we operate, such as Germany and the United Kingdom.

### **Insurance**

As part of our insurance program, we maintain general and product liability insurance, environmental liability insurance, all-risk property and business interruption insurance, cargo and transport insurance, industrial legal aid insurance, fidelity insurance, electronic insurance and credit insurance, as well as health and accident insurance covering most subsidiaries and operations to the extent the Group considers appropriate or otherwise as required by applicable law. We are not currently involved in any material claims under our insurance.

### **Information Technology**

Our critical information technology systems are largely operated and hosted by Fujitsu TDS. Our core systems are centralized in data centers located in Germany where all SAP servers and SAP-related infrastructure for information technology systems located in Western Europe and the Commonwealth of Independent States are hosted. Other non-core information technology systems are operated locally by our subsidiaries.

### **Environmental**

We are subject to a number of local, national and regional laws and other requirements relating to the protection of the environment and the safety and health of personnel and the public. These requirements

relate to a broad range of our activities, including (i) product and industrial activity-related environmental protection and (ii) the operational management of occupational safety and well-being related to hazardous substances in production activities.

Our capital and operating budgets include the expected costs and expenses necessary to ensure compliance with these laws. Specifically, we incur labor costs for environmental, health and safety activities, local costs for industrial environmental protection, investments to improve workplace ergonomics and the coverage of substance substitutions. If we do not comply with environmental requirements that apply to our operations, regulatory agencies could seek to impose civil, administrative and/or criminal liabilities, as well as seek to curtail our operations. Under certain circumstances, private parties could also seek to impose civil fines or penalties for violations of environmental laws or recover monetary damages, including those relating to property damage or personal injury.

The presence of hazardous materials at our facilities may expose us to potential liabilities associated with the cleanup of contaminated soil and groundwater, and we could be liable for (i) the costs of responding to and remediating that release and (ii) the restoration of natural resources damaged by any such release, among other things. We have not incurred in the past three fiscal years, nor do we anticipate incurring, material expenditures in order to comply with environmental laws or regulations. We are not aware of any environmental liabilities that we would expect to have a material adverse effect on our business.

We are committed to optimizing procedures and processes to conserve resources and minimize our impact on the environment. Furthermore, as a result of our business model, which excludes the in-house production of active ingredients, we do not present any significant emission risks. We are currently working on an integrated corporate governance report which is expected to include key corporate governance metrics and will be applicable across our entire Group.

### **Joint Ventures**

We have entered into several joint ventures to access additional geographic markets, further enhance our local market expertise, minimize costs and increase growth in areas we believe have significant business potential. For an overview of our joint ventures, see the notes to the STADA Financial Statements included elsewhere herein. When entering into joint ventures, we generally seek control over the joint undertaking.

### **Regulatory and Compliance**

We do business in certain countries that are subject to economic sanctions or are known to have weak measures against money laundering and terrorist financing, including Russia, Iran, Lebanon, Yemen and Libya. For the year ended December 31, 2018, our sales in these countries, excluding Russia, accounted for €4.5 million. Our sales in Russia for the year ended December 31, 2018 were €311.9 million. We have specific procedures in place to ensure that our exports into these countries comply with the relevant international, regional and national regulations. We follow a risk-based approach, which means, for example, prior to entering into a contract with a customer, we conduct due diligence on our customers and obtain documentation from them that verifies their identity as well as the identity of their end-customers and beneficial owners. In addition, we tailor our contracts to the specific contractual partners and export countries, providing for specific payment terms and requiring specific guarantees.

### **Legal Proceedings**

From time to time we become involved in various claims and lawsuits arising in the ordinary course of our business, such as labor law-related claims; disputes with our suppliers, authorities, non-controlling shareholders or business partners; health and safety and environmental issues; and intellectual property disputes. We do not currently consider any of our pending lawsuits to be material, with the exception of one dispute in Serbia. Our Serbian subsidiary Hemofarm AD had two subsidiaries, Velefarm AD Holding and Velefarm VFB d.o.o., both of which underwent bankruptcy proceedings in Serbia. One of the creditors party to the bankruptcy proceedings brought a claim against Hemofarm AD, Velefarm AD Holding and Velefarm VFB d.o.o. seeking (i) the return of bankruptcy funds and other benefits that were collected on the basis of a set-off agreement in relation to the bankruptcy estate of Velefarm AD Holding and Velefarm VFB d.o.o. and (ii) the settlement and debt restructuring agreements entered into among, *inter alia*, Velefarm AD Holding, Velefarm VFB d.o.o. and Hemofarm AD in connection with the bankruptcy proceeding and the related set-off statements to be declared without effect towards the bankruptcy estate. Our potential exposure in this litigation amounts to approximately €35.0 million. As of the date of this

offering memorandum, we have not set aside provisions in respect of this dispute. Otherwise, we are currently not involved in any legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our financial position or results of operations. We note, however, that the outcome of legal proceedings can be extremely difficult to predict, and we offer no assurances in this regard.

## REGULATION

### European Union

#### *Overview (Germany, Italy, Spain and the United Kingdom)*

The Group's pharmaceutical business activity comprises the following regulated activity: (i) medicinal product development (the Group does not conduct any material proprietary research for new active pharmaceutical ingredients); (ii) medicinal product authorization; (iii) manufacturing and the procurement of contract manufacturing; (iv) wholesale distribution and supply; (v) pharmacovigilance; and (vi) promotion. The current range of medicinal products comprises generic, biosimilar, prescription-only and OTC medicinal products. Each of these activities is subject to strict legislative frameworks at both EU and national levels compliance with which requires the expenditure of substantial personnel and financial resources, and breach of which can result in enforcement activity under civil, administrative and/or criminal law.

While the Group also commercializes products that are regulated as medical devices, cosmetic products and food supplements, the text below summarizes the material licenses and regulatory aspects of the pharmaceutical product regulatory regimes text are applicable to the material parts of the Group's pharmaceutical business in Germany, Italy, Spain and the United Kingdom, the violation of which could result in: (i) the suspension or revocation of licenses or registrations; (ii) the limitation, suspension or termination of service; and/or (iii) the imposition of civil, administrative and criminal penalties, including fines.

#### *EU Pharmaceutical Regulatory Regime*

##### *Non-clinical and Clinical Investigations*

Both non-clinical and clinical data (i.e., from studies involving human participants) are generally required to support a marketing authorization for a medicinal product. Appropriate studies are therefore required, the conduct of which in the EEA is carefully regulated under EU Directives 2010/63/EU, 2004/9/EC, 2004/10/EC and 2001/20/EC, respectively, and corresponding member state national laws. To the extent that non-clinical research is conducted on animals, it is subject to significant legislative restrictions. In particular, the person conducting such research and the research project itself must be authorized by a relevant competent authority. The establishment where the animal research takes place must also be compliant with the legislation—this entails an additional authorization under national legislation.

As regards the initiation and conduct of clinical trials, many of the legal obligations in directive 2001/20/EC and its associated good clinical practice Directive 2005/28/EC fall on the “sponsor” of the clinical trial, which is defined as the individual, company, institution or organization that takes responsibility for the initiation, management and/or financing of a clinical trial. Before commencement of a clinical trial, the sponsor must obtain authorization from the competent authority/ies in the member state(s) in which the trial will be conducted. Approval from a competent national ethics committee in each of the relevant member states is also a prerequisite to commencing a trial. The EU clinical trial legislation also imposes requirements regarding the conduct of directive trial itself (which must be conducted in accordance with good clinical practice (“GCP”) to generate data acceptable for marketing authorization submission) and safety reporting of adverse events and reactions, among other matters. If clinical trials are conducted outside the EEA, they must likewise follow the principles set forth in the EU legislation if their results are to be submitted in an application for marketing authorization in the European Union in order for the data they generate to be accepted. These requirements also apply to bioavailability studies conducted to demonstrate acceptable bioequivalence of generic medicinal products to innovative products.

The regulation of clinical trials conducted in the EEA will undergo significant change when the EU Clinical Trials Regulation comes into effect, which the EMA expects to occur during 2020.

##### *Marketing Authorizations*

The EU regulatory framework applicable to medicinal products is largely set forth in the “Community” code contained in Directive 2001/83/EC as implemented in the respective national laws of EEA member states. Subject to certain narrow exemptions, this requires that all medicinal products, including generic versions of authorized (including previously authorized) products, must obtain a marketing authorization before they can be lawfully placed on the market in the EEA. There are three main procedures for applying for marketing authorization: the Centralized Procedure (operated by the EMA and the European

Commission under EC Regulation 726/2004), the Mutual Recognition Procedure and the Decentralized Procedure, both operated by EEA member state national authorities under the rules set forth in Directive 2001/83/EC. It is also possible to obtain a purely national, stand-alone authorization for products intended for marketing only in a single EEA member state.

Under the Centralized Procedure, applications must be made to the EMA for an authorization granted in the form of a single binding European Commission decision to grant a Community (as defined in the relevant Directive) marketing authorization which is simultaneously valid in each of the EEA member states. The Centralized Procedure is mandatory for biotechnology products. It is also mandatory for advanced-therapy medicinal products for new active substances to treat cancer, neurodegenerative disorders, diabetes, AIDS, autoimmune diseases or other immune dysfunctions and viral diseases, and for products designated as orphan medicinal products. It is also available, on an optional-basis, for other new chemical entities or innovative medicinal products, or in the interests of public health, which may also include applications for Community marketing authorizations for non prescription and generic medicinal products of nationally authorized reference products. For generic marketing authorization applications of Community-authorized reference medicinal products (which have been authorized under the Centralized Procedure), there is automatic access to the Centralized Procedure.

The Mutual Recognition Procedure and the Decentralized Procedure each aims to facilitate access to the EEA single market by relying upon the principle of mutual recognition. Thus, a marketing authorization or the assessment in one EEA member state (the reference EEA member state) ought in principle to be recognized by the competent authorities of the other EEA member states (the concerned EEA member states ("CMSs")), unless there are grounds for supposing that the authorization of the medicinal product concerned may present a serious risk to public health. Under both procedures, if the application is successful, the CMSs grant a national marketing authorization for the medicinal product.

Under all marketing authorization procedures the applicant must submit a dossier containing, among other items, data demonstrating the safety, quality and efficacy of the medicinal product. For generic medicinal products, there are reduced data submission requirements (no preclinical or clinical study results are required although bioequivalence must be substantiated, usually via appropriate bioavailability studies). For similar biological medicinal products (biosimilars) some preclinical and/or clinical studies performed for the original reference product may not need to be reproduced as a biosimilar application is based on a comparison between the biosimilar and its reference medicine to show that there are no significant differences between them.

At the time of the grant of a marketing authorization for a medicinal product, the competent authority must specify the classification of the product as either prescription only or not. National laws may make provision for certain sub-categories. It is open to the marketing authorization holder to subsequently apply for an amendment of this classification (either way) subject to filing relevant supporting additional data.

#### *Manufacturing and Contract Manufacturing*

The EU Community Code in directive 2001/83/EC contains substantial requirements for the manufacturing of medicinal products, which are required to be manufactured in accordance with the principles of GMP set forth in Commission directive 2003/94/EC. Manufacturing activity includes the importing of or the total or partial manufacture (including the various processes of dividing up, packaging and presenting) of medicinal products. There are also prescriptive requirements relating to the content and design of the packaging and labeling of medicinal products. These include certain mandatory information which must be stated on the product label, packaging and patient information leaflet.

The manufacturer must ensure that all manufacturing operations for medicinal products subject to a marketing authorization are carried out in accordance with the information provided in the application for marketing authorization as accepted by the competent authorities. Any manufacturing operation or linked operation, that is carried out under contract for the manufacturer, must be the subject of a written contract between the manufacturer and the subcontractor which defines and allocates the responsibilities of each party and which defines, in particular, the observances of GMP to be followed by each party. The manufacturer must monitor and review the subcontractor's performance.

If manufacturing activity is undertaken within the EEA, a valid manufacturing authorization from the relevant member state is required for the category of products concerned and which covers the type of manufacturing activity undertaken (e.g., importing or packaging, etc.). The holder of a manufacturing authorization is obligated to comply with the principles and guidelines of GMP for medicinal products and



to use as starting materials only active pharmaceutical ingredients that have been manufactured in accordance with the GMP for active substances. Excipients for use in medicinal products must also be produced in accordance with appropriate GMP to be determined following a formal risk assessment. As a matter of GMP compliance, the manufacturer must verify via site audits that suppliers and distributors of active substances are each complying with GMP and good distribution practice principles. Manufacturers are subject to regular inspections by competent authorities to assess their compliance with GMP. Manufacturers must also appoint a “qualified person” who is responsible for certifying that individual batches of medicinal product satisfy legal requirements.

Manufacturing authorizations must be issued by the member state authority where the manufacturing activity and plant is located and are holder- and site-specific. EU member state competent authorities also undertake regular GMP inspections of manufacturers located in countries outside the EEA that are engaged in the manufacture of medicinal products to be supplied to the European Union. An EU-based manufacturer may only import active substances from outside the EEA if the active substances have been manufactured in accordance with GMPs equivalent to EU GMPs for active substances, and if they are accompanied by a written confirmation from the competent authority of the exporting third country, which as regards the plant manufacturing the exported active substance, confirms that the standards of GMP and control of the plant are equivalent to those in the EEA. Alternatively, active substances may be imported from countries on the approved list of recognized GMP-equivalent countries operated by the Commission.

From 2019, the European Union falsified medicines legislation (now incorporated in Directive 2001/83/EC and in delegated directives) will impose additional obligations on manufacturers regarding certain safety and anti-tamper features to be included in product packaging (where required).

### *Distribution*

Entities undertaking the wholesale distribution of medicinal products are also required to hold a wholesale dealer’s authorization from the EEA member state where the distribution is taking place and must fulfill certain requirements concerning the suitability and adequacy of premises, installations and equipment, so as to ensure the proper conservation and distribution of the medicinal products. These requirements also extend to staff. In particular, a distributor must have a qualified “responsible person” who meets national legislative requirements regarding qualifications.

Wholesale distribution includes all activities relating to procuring, holding, supplying or exporting medicinal products, other than supplying medicinal products to the public. Such activities are carried out by manufacturers or their depositories, importers or other wholesale distributors or by pharmacists and persons authorized or entitled to supply medicinal products to the public in the member state concerned.

Distributors are subject to regular site and system inspections by competent authorities to assess the distributor’s compliance with applicable legal requirements in the Community Code in directive 2001/83/EC, which include compliance with the principles of EU GDP. Distributors must keep certain records and documentation (particularly for the purposes of facilitating product and batch recall) and must operate a quality system and have a plan for the effective implementation of recalls. Distributors are also obligated to confirm that entities from whom they obtain supplies of medicinal products have the appropriate authorizations and, where applicable, have complied with GDP principles. They may also only supply entities who possess appropriate authorizations.

From 2019, the EU’s falsified medicines legislation will also impose additional obligations on distributors regarding the verification of specified safety and anti-tamper features to be included in product packaging (where required).

### *Pharmacovigilance*

“Pharmacovigilance” refers to the science and activities relating to the detection, assessment, understanding and prevention of adverse effects or any other medicine-related problem. Marketing authorization holders are subject to detailed and extensive risk management and pharmacovigilance obligations under Directive 2001/83/EC and EC Regulation 726/2004 and the associated guideline on good pharmacovigilance practices. Among other matters, these include the implementation of risk minimization measures on a per-product basis as well as a requirement for the marketing authorization holder to operate a pharmacovigilance system to monitor the safety of authorized medicinal products and to detect any change to their risk benefit balance. Details of the pharmacovigilance system must be set forth in the pharmacovigilance system master file, which must be maintained by the marketing authorization holder

and kept available for inspection by competent authorities upon request. The marketing authorization holder must establish and use a “quality system” to perform its pharmacovigilance obligations.

The pharmacovigilance obligations of the marketing authorization holder include detailed obligations regarding reporting. For example, a marketing authorization holder must record all suspected adverse reactions in the EEA or in countries outside the EEA that are brought to its attention, and report such information via the centralized Eudravigilance database. The marketing authorization holder must also submit periodic safety updates to the EMA regarding the benefits and risks of the medicinal product. Other pharmacovigilance obligations are imposed regarding the availability to the marketing authorization holder of appropriate personnel and resources. For example, the marketing authorization holder must have permanently and continuously at its disposal an appropriately “qualified person responsible for pharmacovigilance” who resides in the EEA.

### *Promotion*

Directive 2001/83/EC sets out strict rules for the advertising of medicinal products. The concept of advertising is broadly defined and includes any form of door-to-door information, canvassing activity or inducement designed to promote the prescription, supply, sale or consumption of medicinal products. Advertising must not be misleading and there is a positive obligation for the advertising to encourage the rational use of a medicinal product, among other matters. All promotional materials and activity must also comply with the official “Summary of Product Characteristics” which is always issued for an authorized medicinal product by the authorizing competent authority.

The advertising of medicines in the European Union is permitted subject to certain restrictions in Directive 2001/83/EC as implemented into EU Member State laws. For example, the advertising of unauthorized medicines is prohibited. This includes the advertising of a medicine before a marketing authorization has been granted, as well as the advertising of an authorized medicine for uses (i.e., therapeutic indications) outside the scope of its marketing authorization (so-called “off label” uses). Advertising of prescription-only medicines to the general public is also prohibited, as is the provision of samples to the public for promotional purposes. In addition, the EU legislation gives Member States a certain degree of flexibility to ensure the adequate and effective monitoring of advertising, and detailed rules regarding promotion and monitoring are consequently not fully harmonized across the EEA.

### *Sanctions for Infringement Under EU Law*

Under Commission Regulation 658/2007, the Commission may directly impose financial penalties where the holder of a Community marketing authorization has intentionally or negligently breached certain obligations set forth in the EU pharmaceutical legislation. The power to impose financial penalties applies in cases where the infringement may have significant public health implications in the EEA; where it has a EEA dimension by taking place or having its effects in more than one Member State; or where interests of the EEA are involved.

In the event of an infringement, the Commission may impose a fine of up to 5% of the marketing authorization holder’s turnover in the EEA in the preceding year. If the infringement is ongoing, the Commission may impose penalty payments per day of up to 2.5% of the marketing authorization holder’s average daily EEA turnover in the preceding business year until such time as the infringement is terminated. The Commission may also impose a fine of up to 0.5% of the marketing authorization holder’s EEA turnover in the preceding business year if the marketing authorization holder fails to cooperate with the Commission’s investigation of the potential breach. If the noncooperation continues, the Commission may impose penalty payments per day of up to 0.5% of the marketing authorization holder’s average daily EEA turnover in the preceding business year until the noncooperation is terminated.

EU Regulation 2017/2394/EU on consumer protection cooperation will also come into force from January 17, 2020. This Regulation aims at boosting cross-border public enforcement of EU consumer protection rules, which includes Directive 2001/83/EC, the Community Code on medicinal products. There are current European Commission proposals to amend this Regulation to strengthen the penalties for breaches of EU consumer law by introducing fines based upon percentages of the infringer’s turnover.

### *Enforcement Under National Law*

Enforcement of the regulatory requirements outlined above takes place at a national level and is underpinned by national Member State law.

### *Enforcement Under UK Law*

The EU pharmaceutical regulatory legislation is generally enforced in the United Kingdom under the criminal law via offenses set forth in the Human Medicines Regulations 2012 and the Medicines Act 1968. A person guilty of an offense is generally liable to up to two years' imprisonment and/or an unlimited fine. Liability can arise for a corporate offender and for individual officers of the company (or any person purporting to act in such capacity). Members of the company may also be liable if the affairs of the company are managed by its members.

The UK competent authority has a range of enforcement powers. As well as prosecuting the company and/or individual responsible, the competent authority has investigatory powers enabling it to enter, inspect and search premises and seize medicinal products. The competent authority can also suspend or revoke any UK marketing authorization, manufacturing authorization or wholesale dealer authorization, thereby preventing the holder from carrying on these respective activities.

### *Enforcement Under German Law*

The EU pharmaceutical regulatory legislation is implemented and indirectly enforced in Germany mainly via the Medicinal Products Act (*Arzneimittelgesetz*) and various ordinances passed thereunder. General laws also applicable to the business behaviour of pharmaceutical companies are the Administrative Offences Act (*Ordnungswidrigkeitengesetz*), the Health Advertising Act (*Heilmittelwerbegesetz*)—as far as promotional measures are concerned—and the Criminal Code with its anti-fraud and anti-kickback provisions. A person guilty of an offense can be liable to a fine or imprisonment under administrative or criminal law, depending on the nature of the violation. For example, any person who acts negligently or who willfully or negligently fails to operate a pharmacovigilance system or fails to fulfill certain general pharmacovigilance obligations shall be deemed to have committed an administrative offense. Committing an administrative offense may result in a fine not exceeding €25,000. A violation of the Health Advertising Act can lead to an administrative offense; however, in practice, these aspects (such as requests for preliminary injunctions initiated by a competitor or competition associations) are mainly dealt with in civil law proceedings.

The German competent authorities, which are both authorities at the national level (particularly the Federal Institute for Drugs and Medical Devices (BfArM)) and at the regional level (the administrative authorities in the respective federal states) have a range of enforcement powers. As well as the power to prosecute a company and/or individual responsible, the competent authorities have investigatory powers enabling them to enter, inspect and search premises and seize medicinal products. The competent authorities can also suspend or revoke any German marketing authorization or manufacturing authorization, wholesale dealer authorization, thereby preventing the holder from carrying on these respective activities. As regards enforcement of the restrictions on promotional activities, in practice this is typically done through civil law proceedings brought by competitors and/or associations for fair competition.

### *Enforcement Under Italian Law*

The EU pharmaceutical regulatory legislation is enforced in Italy under criminal and administrative sanctions set forth in Legislative Decrees 211/2003 and 219/2006. A person guilty of an offense is generally liable to up to three years' imprisonment and/or an unlimited fine unless the act constitutes a more serious offense under the Italian Criminal Code. For instance, Article 443 of the Criminal Code makes the administration of faulty medicinal products (i.e., expired drugs) a punishable offense and provides for penalties of up to three years of imprisonment and unlimited fines. In addition, under Article 445 of the Criminal Code, the trade of medicinal substances, in species, quality or quantity not corresponding to medical orders, or different from that declared or agreed, is punishable with imprisonment of six months to two years and with a fine of €103-1,032.

Moreover, Legislative Decree 211/2003 establishes the administrative liability of legal entities (including companies) for organizational negligence in cases in which an executive staff member or employee (i.e., a director, manager or senior executive) is convicted for certain criminal offenses (i.e., bribery and corruption, money laundering, corporate crimes, environmental crimes or crimes against industry and trade, etc.) committed, for the benefit or the advantage of the company, by its representatives. In particular, Legislative Decree 211/2003 sets out (i) monetary penalties (a fine up to Euro €1,549,000) and (ii) disqualifying measures, such as the suspension or revocation of licenses, authorizations and concessions (i.e., pharma licenses), a prohibition on entering into agreements with public entities (i.e., public tenders),

disqualification from the performance of an activity, the exclusion or revocation of loans and contributions, and a ban against advertising goods and services.

Companies may avoid this administrative liability by approving and actually implementing a suitable compliance program for the organization with a system of procedures and supervisory activities aimed at preventing the commission of such offenses, and appoint a Supervisory Body (*Organismo di Vigilanza*) aimed at assessing the effectiveness of the compliance program. However, the release from liability of the company depends on the “suitability judgement” and the determination on the preventive effectiveness of the organizational, administrative and control model, which the criminal judge must give in criminal proceedings to the detriment of the offender. This means that in the event of a final conviction for an offense listed in the catalogue of Legislative Decree 211/2003, if the criminal judge concerned finds that (i) the compliance program adopted by the company is not suitable for preventing the specific crime concerned, (ii) the compliance program has not been effectively implemented or (iii) the activities of the Supervisory Board are insufficient, the company will be liable and subject to the administrative penalties described above.

In addition, the Italian authorities competent for pharmacovigilance are entrusted with a wide range of enforcement powers relevant to their own areas of competence, including (i) undertaking inspections and audits, (ii) modifying, suspending and revoking authorizations (including those for marketing, manufacturing, import, wholesale distribution and advertising) and (iii) issuing interdictory measures or monetary fines.

### *Enforcement Under Spanish Law*

The Spanish pharmaceutical industry enforcement regime mainly comprises administrative law rules and regulates the clinical investigation, marketing, manufacturing, distribution, pharmacovigilance and promotion of medicinal products. In line with EU legislation, medicinal products must receive a marketing authorization granted by the Spanish Agency of Medicinal Products (“AEMPS”), which belongs to the Ministry of Health and Social Services, before medicinal products can be placed on the market. Additionally, manufacturers, importers and marketers of medicinal products are required to hold an authorization granted by the AEMPS. Authorization holders shall comply with security, effectiveness, identification and information obligations regarding the medicinal products marketed. Once the regulatory authorizations are granted, the latter are added to the AEMPS registry and communicated to the EMA for information purposes that are available to the public.

Spanish state and regional authorities are empowered to investigate any conduct, to enter into any establishment or to seize any sample in order to verify compliance of the legislation. Failure to comply with the legislation may result in administrative fines that can be imposed on the authorization holder of up to €30,000 for minor infringements, €90,000 for serious infringements or €1,000,000, or five times the value of the medicinal products involved, for very serious infringements; seizure of the illegal benefit obtained; closure of the establishment; suspension of corresponding activities or/and the withdrawal of the medicinal product from the market.

Additionally, if the aforementioned conduct, and other related conduct described in articles 361 et seq. of the Spanish Criminal Code, endanger human life and health, those provisions establish as penalties for the person who commits the criminal offense a prison sentence of up to four years, a fine which will depend on his or her economic situation and a specific disqualification from the exercise of his or her profession or from trading. In some circumstances the company itself can be liable for the conduct perpetuated by its employees, in which case, article 366 of the Spanish Criminal Code provides for fines up to five times the medicinal products involved and anticipates the possibility of also imposing other penalties, such as the winding up of the company, suspension of its activity, closure of its establishments, prohibition from carrying out its activities, prohibiting the obtaining public subsidies and judicial intervention.

## **Russia**

### *Overview*

The development, non-clinical/clinical trial development, registration, manufacture, safety, storage, transportation, advertising, sale, use and destruction of pharmaceuticals in the Russian Federation is strictly regulated by national laws, and since May 6, 2017 by the regulations of the Eurasian Economic Union (the “EAEU”) on the united pharmaceutical market, formed by its members Armenia, Belorussia, Kazakhstan, Kirgizia and Russia. The regulations of the EAEU as international law take precedence over



national legislation. The EAEU regulations cover the registration of pharmaceuticals, labelling, packaging, good practices and pharmacovigilance. Obtaining clinical trial approvals, licensing, price formation, state procurement and advertising are the exclusive competence of each member state.

#### *Non-clinical/Clinical Trial Development*

Prior to applying for the registration of a pharmaceutical product, non-clinical studies and clinical trials are arranged by a “sponsor,” if necessary. The sponsor is the organization with a license to conduct pharmaceutical activities, which owns the results of the studies and/or the relevant pharmaceutical manufacturing technologies. All studies must confirm the pharmaceutical quality of the products and demonstrate their safety and efficacy.

For non-clinical studies (biomedical studies not performed on human subjects), the laboratory where the relevant research takes place is subject to strict controls by the Federal Service for Surveillance in Healthcare. Pursuant to EAEU legislation, preclinical research on animals shall not be conducted with respect to generic drugs.

The sponsor is obligated to conduct relevant studies according to the clinical trial permission granted by the Ministry of Health of the Russian Federation. Such permission is granted after the Ministry conducts a review of the application and accompanying documents submitted by the sponsor or any person authorized by the developer.

Clinical research conducted on humans is subject to stringent regulations imposed by the Ministry of Health and the Ethical Board of the Russian Federation. In particular, a person conducting such research (i.e., the “principal investigator”) must have relevant experience consisting of at least three years of studies in clinical trials and extensive medical practice in the relevant therapeutic area. In addition, the institution where the research takes place must be authorized by the Ministry of Health. Clinical trials must be conducted in accordance with GCP. Successful results of clinical trials are a mandatory condition for the registration of a pharmaceutical product.

#### *Registration Process*

Pharmaceuticals can be manufactured, stored, transported, sold, used or destroyed only upon obtaining a registration certificate (or a marketing authorization) issued by the Ministry of Health of the Russian Federation.

At the applicant’s option, the registration procedure can be carried out in accordance with Russian or EAEU regulations. Depending on the option chosen, an issued registration certificate will be valid in the territory of Russian Federation or in all EAEU member states, respectively. After December 31, 2020, applicants for new registrations must file documents only with the EAEU (the national procedure will not be applicable). All valid registration dossiers of those pharmaceuticals that were previously registered under national rules must be brought into full compliance with the unified rules of the EAEU by December 31, 2025.

Under Russian regulations, the duration of the registration process ranges from 80 working days (for the registration of the first three generic pharmaceuticals) to 130 working days (for generic and original pharmaceuticals), excluding a possible suspension for up to 90 days. EAEU regulations envisage 210 calendar days as the maximum duration of the registration process, excluding two possible suspensions of up to 90 days each. Clinical trials are not included in that term. Usually the whole registration process takes at least one and a half to two years for original and approximately eight to twelve months for generic pharmaceuticals.

Usually, the official fee for the examination of pharmaceuticals amounts to ₸325,000 plus an additional ₸10,000 in order to obtain a registration certificate issued by the Ministry of Health of the Russian Federation. The cost of clinical trials is calculated individually for each pharmaceutical and is not included in the official fee. EAEU registration official fees are approved at the governmental level. The results of clinical trials conducted in other EAEU states as well as in the member states of the International Conference on the Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use may be accepted as part of the application.

After grant, the registration certificate can be annulled by the Ministry of Health for a number of reasons, including danger to health, infringement of the rights of a third party in the absence of the pharmaceutical from the Russian market for more than three years, among others.



Violations such as manufacturing or selling unregistered pharmaceuticals can lead to a fine of up to ₺5,000,000 or the suspension of the licensed activity for up to 90 days. Suspension of the activity can only be ordered by the court. If the violations have not been remedied after the expiration of the suspension period, the license for manufacturing pharmaceuticals (see below) can be annulled upon application of the appropriate regulatory body by a ruling of the court.

If the value of the manufactured or sold unregistered pharmaceuticals exceeds ₺100,000 an individual (e.g., Chief Executive Officer or another employee of the company) found responsible may be subject to criminal sanctions of up to eight years' imprisonment and a fine in the amount of: (i) up to ₺3,000,000 or (ii) the income of the offender for a period from six months to three years. The offender may also be prohibited from occupying certain posts or engaging in certain activities for up to five years.

In the case of the death of two or more people or grievous harm caused by an unregistered pharmaceutical, the term of imprisonment can be up to twelve years with a fine in the amount of: (i) up to ₺5,000,000 or (ii) the income of the responsible person for a period of two to five years. The offender may also be prohibited from occupying certain posts or engaging in certain activities for up to ten years.

### *Manufacturing and Distributing Pharmaceuticals*

Manufacturing pharmaceuticals requires a license and a GMP certificate, both of which are issued by the Ministry of Industry and Trade of the Russian Federation. Manufacturing pharmaceuticals without a license is a criminal offense and may lead to imprisonment for up to eight years and a fine in the amount of: (i) up to ₺3,000,000 or (ii) the income of the offender for one to three years.

If ethanol is used in the manufacture of a pharmaceutical substance, it must be recorded in the Unified State Automated System ("USAS") (*ЕГАИС*) in order to control the volumes and circulation of pharmaceutical products containing alcohol. Failure to comply with the USAS record requirements can lead to a fine of up to ₺200,000 and to the confiscation of the pharmaceutical products. On January 1, 2018, new requirements relating to ethanol usage entered into force. Pursuant to these new requirements, if ethanol (or ethanol as a pharmaceutical substance) is used in the manufacture of pharmaceutical products or medical devices, it must be recorded in USAS in order to control the volumes of manufacture and circulation of pharmaceutical products containing alcohol.

For laboratory activities that use agents that cause infectious diseases and genetically modified organisms of III and IV pathogenicity level, a company needs a license or has to involve companies with such licenses. The license is issued by the Federal Service on Surveillance for Consumer Rights Protection and Human Well-being. A major change of control of a license-holder entity is subject to prior approval by a special governmental committee.

The distribution (whether wholesale or retail) of pharmaceuticals requires a license for pharmaceutical activity, issued by the Federal Service for Surveillance in Healthcare. The online sale of pharmaceuticals is prohibited, but currently a draft law permitting the online sale of pharmaceuticals is being discussed at a governmental level.

The manufacture and distribution of pharmaceuticals containing narcotics, psychotropic substances or their precursors is subject to an additional license for the circulation of such substances. The license is issued by the Federal Service for Supervision in Healthcare of Russian Federation.

Violation of the regulations the manufacture or distribution of pharmaceuticals can lead to a fine of up to ₺30,000 provided such actions do not violate licensing requirements (mandatory requirements with which license holder must comply). As a general rule, violation of any licensing requirements can lead to a fine of up to ₺40,000. Major violations of the license requirements can lead to a fine of up to ₺200 000 or a suspension of the licensed activity (e.g., distribution) for up to 90 days. The activity can be suspended only upon a ruling by a court. If major violations have not been remedied after the expiration of the suspension period, the license can be annulled upon application to a court by the respective regulatory body.

### *Pharmacovigilance (Pharmaceutical Safety Monitoring)*

A company is required to establish a pharmacovigilance system, which includes the appointment of a qualified person to collect, assess and report safety information with regard to the benefit/risk assessment of the product and any adverse events.

After a product registration certificate has been granted, the registration certificate holder must submit periodic safety reports to the Federal Service for Surveillance in Healthcare. In addition, the registration

certificate holder must continuously monitor the benefit/risk balance of the product and implement and monitor procedures for the performance of adverse event collection, evaluation and reporting, the updating of risk management plans and take other pharmacovigilance measures.

The Federal Service for Surveillance in Healthcare will inform the Ministry of Health of any negative safety information it obtains, as a result of which the latter can suspend the circulation of the pharmaceutical or revoke the registration certificate.

For the nondisclosure of adverse events, the registration certificate holder can be charged with a fine of up to ₺70,000. If such nondisclosure creates a danger to people, animals or the environment, the individual responsible may bear criminal liability and be charged with a fine of up to ₺300,000 and imprisoned for up to two years. The offender may also be prohibited from holding certain positions and engaging in certain activities for a period of up to three years or, in the case of serious harm caused by such non disclosure, the offender can be charged with a fine of up to ₺500,000 and imprisoned for up to five years.

### *Promotion of Pharmaceuticals*

The promotion of registered pharmaceuticals is permitted, subject to certain restrictions. For example, the advertising of pharmaceuticals may not: (i) contain specific cases of recovery or expressions of gratitude from patients, (ii) create an impression of the advantages of the product by referring to mandatory clinical trials, (iii) create an impression of the necessity of using the advertised product for certain diseases, (iv) create an impression of the absence of the need to consult a healthcare professional, (v) guarantee the positive impact or safety of, and the absence of any side effects from, the advertised product, (vi) advertise a pharmaceutical product as a biologically active supplement or (vii) claim that the safety and efficiency of the pharmaceutical product are guaranteed by its natural origin.

Prescription pharmaceuticals can be advertised only during special events for healthcare professionals or in media specially designated for healthcare professionals. In such cases, advertising may refer to specific patient case studies. Prescription pharmaceuticals may not be advertised to consumers.

Advertising compliance is regulated by the Federal Antitrust Service of the Russian Federation. Violation of the pharmaceuticals advertising legislation can lead to a fine up to ₺500,000 for each instance of violation.

### *VEP Circulation*

The Russian government approves a list of vital and essential pharmaceuticals (“VEP”) annually. This list includes international nonproprietary names of pharmaceuticals for treating the most common or top-priority conditions. VEPs’ maximum prices must be approved by and registered with the Ministry of Health and Federal Antitrust Service. Overpricing can result in a fine of double the amount of excess earnings (i.e., the amount earned by the overcharge) for the period of the violations, up to a maximum period of one year.

VEPs produced abroad are subject to restrictions for state procurement purposes: if two or more national or EAEU analogous products participate in a state procurement procedure, the foreign product is excluded from the tender.

National manufacturers of VEPs can also apply for subsidies from the government.

## **Reimbursement of Medicinal Products**

### ***The EU Directive on the Transparency of Measures Regulating the Pricing of Medicinal Products (89/105/EEC)***

Directive 89/105/EEC places obligations on EEA member states in respect of their regulation of the pricing of medicinal products. These obligations include: prescribed time periods in which a competent authority must respond to an application for approval of the price of or increase in the price of a medicinal product (where such approval is required before the product can be marketed or the price increase implemented, respectively); obligations to regularly review price freezes to consider the justification of such price freezes and prescribed time periods for announcing the results of such reviews; requirements to give reasons for certain decisions; obligations to publish prescribed information and provide prescribed information to the European Commission regarding products for which prices have been fixed and the prices that may be charged, including any price increases; and time periods for communicating decisions (including exclusions) on whether reimbursement of a medicinal product will be covered by a national health insurance system. These obligations include communicating criteria used by national social security

systems for the therapeutic classification of medicinal products as well as criteria used by competent authorities to verify transfer pricing used by companies for active pharmaceutical ingredients, intermediate-manufactured or finished medicinal products.

Member States are also obligated to publish information and to communicate to the Commission regarding the methods and criteria they apply to define profitability, return on sales and/or return on capital, including the ranges of target profit permitted and the maximum percentage of profit permitted to persons placing medicinal products on the market.

### ***Reimbursement of Medicinal Products in Germany***

#### ***Reimbursement Regime***

Being covered by health insurance is compulsory in Germany. There are two different types of insurance: (i) statutory health insurance and (ii) private health insurance. For an employee, membership in the statutory health insurance system is mandatory unless his/her income rises above an annually determined threshold. One element of the German healthcare system is that medicinal products are reimbursed to the patient, either by the statutory health insurance, in which case the patient does not need to pay directly for the products (except for a low co-payment), or by the private health insurance, in which case the patient first pays for the product and then receives reimbursement from the private health insurer.

In Germany, for the reimbursement of medicinal products by statutory health insurance, a distinction needs to be made between prescription drugs and nonprescription drugs. Prescription-only medicinal products are only available on prescription by a doctor, dentist or veterinarian (Section 48 of the German Medicinal Products Act). In general, under current rules and regulations, the reimbursement system applies to all prescription drugs with the exception of:

- medicinal products for the treatment of colds and flu-like infections, including cold remedies, painkillers, cough steaming treatment or cough expectorants;
- mouth and throat therapeutics not involving fungal infection;
- laxatives;
- medication for travel sickness;
- medication that primarily focuses on improving the quality of life;
- erectile dysfunction;
- increase sexual potency;
- smoking cessation;
- emaciation;
- curbing appetite;
- weight regulation; and
- improving of hair growth.

The reimbursement of nonprescription medicinal products is restricted. In general, nonprescription products are not part of the reimbursement system if the insured person is more than twelve years old and does not have a developmental disorder before the end of the 18th year of life (Section 34 para.1 of Volume V of the Social Insurance Code). Outside the reimbursement framework there is price freedom for manufacturers.

#### ***Price-Setting***

For the sale of medicinal products German law provides for a pricing framework to ensure consistent prices for the same medicinal products. For the “pharmaceutical entrepreneur” (usually the marketing authorization holder) of medicinal products, the principle of free pricing for products generally applies. However, a restriction on free pricing may result from the “benefit assessment” according to the Social Insurance Code. In essence, the marketing authorization holder must prove additional benefits over comparable available products. If the marketing authorization holder fails and there is no therapeutic improvement on the basis of the benefit assessment then the medicinal product will be added to the existing reference pricing list. This also has an economic pressure effect on the marketing authorization

holder to reduce prices to the existing reference pricing list in order to be competitive in the market. If an innovative (i.e., nongeneric) medicinal product demonstrates additional benefits because there is a therapeutic improvement then the price can be negotiated between the marketing authorization holder and the German federal association of statutory health insurance funds. For products in the generics market there is a mandatory discount of 10% of the ex-factory price if they are distributed at the expense of the public health care system (Section 130a of Volume V of the Social Insurance Code). There can also be other restrictions in Volume V of the Social Insurance Code, such as a regulation of reference prices and compulsory manufacturer discounts.

In addition, a pharmaceutical entrepreneur must guarantee a uniform sales price for medicinal products that are to be dispensed exclusively in pharmacies and are subject to reimbursement by the statutory health insurance.

In the case of nonprescription medicinal products that are to be reimbursed by the statutory health insurance, a pharmaceutical entrepreneur shall specify its uniform sales price from which exceptions may be made in individual cases (Section 78 of the Medicinal Products Act).

### ***Reimbursement of Medicinal Products in England & Wales***

In England and Wales, the measures adopted for regulating the pricing of medicines vary according to the type of medicine. The generic term “Government” is used in this context to refer to the Department of Health and other UK NHS bodies running the public health service in England and Wales.

#### ***Branded Medicines***

The Pharmaceutical Price Regulation Scheme 2014 (the “PPRS”) is a voluntary scheme open to manufacturers and suppliers which regulates the pricing of branded medicines (including branded generics) supplied to the UK NHS and which was in place until the end of 2018. It therefore did not cover sales of unbranded generics to the UK NHS or any sales outside the UK NHS (e.g., private prescription sales or non-UK NHS OTC sales). According to Government figures released at the end of 2016, in 2015 almost 90% of branded medicines supplied to the UK NHS were supplied by PPRS members.

Key features of the PPRS was as follows:

- A profit cap for individual members who elected to be part of the scheme and a general repayment across all members where UK NHS spend on branded medicines exceeds predicted growth levels.
- In relation to product pricing, there is freedom of pricing at launch where new active substances were granted marketing authorization, including line extensions of such new medicines within five years of the marketing authorization. However, this freedom was limited by an expectation that pricing would be “close” to value assessments for new medicines provided by the National Institute for Health and Clinical Excellence (now called the National Institute for Health and Care Excellence), an executive non-departmental Government body.
- All other pricing, including price increases or variations, are subject to Governmental consent. There were flexible pricing options or special rules for defined scenarios (such as new indications), but the Government generally had discretion as to what was accepted.

Therefore, under the PPRS, although the technical position is freedom of pricing at launch, there were notable constraints on individual product pricing and the profit/repayment mechanisms influence PPRS members’ pricing across their portfolios. The PPRS was not a reimbursement scheme as such, but rather a system to control the profitability of persons placing branded medicinal products on the market.

The Government does not use external reference pricing for medicines, but UK prices are often used as reference pricing elsewhere and the above factors will be relevant where that is the case.

The PPRS expired on December 31, 2018. In a November 23, 2018 announcement, the Government and the Association of the British Pharmaceutical Industry confirmed that the replacement will be called the 2019 Voluntary Scheme for Branded Medicines Pricing and Access (and known as “the Voluntary Scheme” for short). It is believed that the full final contents of the Voluntary Scheme will be published during December 2018. Based on preliminary indications to industry, there is as yet no reason to expect significant divergence from the current PPRS on the above points, but that is dependent on last-minute negotiation and potential changes to the announced position.

### *The Statutory Scheme*

Suppliers of branded medicines that elected not to be subject to the PPRS or which were required to leave the PPRS by virtue of a notice served by the Secretary of State are subject to a statutory scheme for sales to the UK NHS. The statutory scheme in force since April 1, 2018 replaced a system involving a mandatory 15% price cut on the UK NHS list price of medicines on sale on December 1, 2013 with the following two forms of price regulations:

- a repayment mechanism based on a percentage of suppliers' net sales income (which is initially 7.8% and which is expected to be 9.9% for 2019) and modelled on that currently applicable under the PPRS; and
- a mechanism for the setting of maximum prices that may be charged by a manufacturer or supplier, unless in either case the medicines were procured under a contract subject to public procurement legislation entered into on or before April 1, 2018 and/or entered into following a tender that closed on or before that date (including call-off contracts under a framework agreement entered into on or before that date, even if the call-off itself is entered into after that date).

The Government has recently consulted on amendments to the statutory scheme rules and is expected to make amendments to the statutory scheme.

### *Unbranded Generics*

In principle, there is freedom of pricing for unbranded generic prescription-only pharmaceuticals, which are subject to competition on the open market. However, the following two factors may influence prices charged by generic suppliers:

- The price at which pharmacists are reimbursed for dispensing prescription generics is set by the “Drug Tariff,” Part VIIIA of which lists reimbursement prices for the vast majority of generic prescription pharmaceuticals. Different methods for calculating reimbursement pricing have been applied to different categories of generics. However, the Health Service Products (Provision and Disclosure of Information) Regulations 2018 introduced mandatory information retention, and mandatory information provision on request, in relation to sales and income provision by all suppliers of unbranded generics to facilitate Drug Tariff pricing. Although some provisions of these June 2018 Regulations came into force in January 2019, the provisions relating to information on unbranded generics are already in force.
- Section 262 of the National Health Service Act 2006 (as amended in 2017 by the Health Service Medical Supplies Costs Act 2017) grants the Government power to limit any price charged by the supplier of any medicine to the UK NHS where that medicine is not covered by a voluntary scheme. This would in theory apply to (i) branded medicines subject to the statutory scheme, (ii) unbranded generics, (iii) OTC medicines dispensed under a prescription unless caught by the PPRS (see “—OTC Sales”) or (iv) a medicine sold OTC to the UK NHS. However, any enforcement under s262 requires a proactive step by the Government and consultation with a relevant industry body (such as a trade association).

### *OTC Sales*

The only potential pricing constraint on the sale of products that are actually sold OTC is s262 of the National Health Service Act 2006 (see “—Unbranded Generics”), and then only for OTC sales to the UK NHS. Otherwise, the sale of products OTC is free on the open market.

Where OTC medicines are prescribed on the UK NHS, two features may influence a supplier's pricing:

- The cost of purchasing and dispensing an OTC medicine prescribed on the UK NHS is in principle reimbursable to community pharmacies, unless it features on a “black list” of nonreimbursable products that forms part of the Drug Tariff.
- Where an OTC medicine's prescription sales are below £50,000, the Government may exercise discretion to exclude such sales from PPRS calculations relevant to the profit cap and the industry repayment. A PPRS member company should therefore note that any sales of prescribed OTC products will count towards such calculations, where the Government has not exercised this discretion.



For non-PPRS members, the Government has confirmed that OTC sales (including where OTC products are prescribed) are not subject to the statutory scheme.

### ***Reimbursement of Medicinal Products in Italy***

In order to be placed on the market, medicinal products must be priced and assigned (by AIFA, the Italian Medicines Agency) to a class (i.e., classes A, H, C and C-bis), which is aimed at identifying whether or not the cost of a medicinal product is charged to the Italian National Health Service (*Servizio Sanitario Nazionale*) (“SSN”) (the “Italian NHS”). The costs of medical products assigned to classes A and H are wholly borne by the Italian NHS (i.e., reimbursable); some of them are refundable only in hospitals. By contrast, the patient has to bear the costs for medicinal products in classes C and C-bis (i.e., nonreimbursable). The class of refundability is identified during the marketing authorization procedure.

Class A includes essential products and those intended for chronic diseases (e.g., antibiotics, antidiabetic and antitumor medicines), and are fully reimbursed by the Italian NHS. To acquire these products, a valid prescription must be obtained.

Class H includes products requiring specialist supervision that are fully reimbursed by the Italian NHS if dispensed in hospitals.

Class C includes other products that do not have the characteristics of class A or class H and are not reimbursed by the Italian NHS. In particular, they are medicinal products used for minor diseases, which are therefore not considered to be “essential” or “life-saving.” Class C includes prescription-only medicinal products as well as nonprescription-only medicinal products which cannot be advertised to the public.

With Law 311/2004 (Budget Law 2005), a new range of medicinal products was established, the C-bis class, which includes nonprescription-only medicinal products which may be advertised to the public (OTC products).

The mechanism for determining the prices of medicinal products differs depending on whether they are reimbursable (classes A and H) or not (classes C and C-bis).

In particular, AIFA applies price regulation only to reimbursed medicines. For non-reimbursed medicines (class C), the price is set freely by pharmaceutical companies but is monitored by AIFA and the Ministry of Health in order to keep prices at reasonable levels. Although, in principle, the prices of class C medicinal products are set freely by pharmaceutical companies, in practice they have been increasingly regulated by legislative provisions according to which pharmaceutical companies may only increase prices of class C pharmaceuticals every other January. The prices assigned by manufacturers are maximum prices at national level. Price reductions by manufacturers are allowed at any time, while price increases are allowed in January of odd years.

With reference to classes C and C-bis medicinal products, however:

- (i) as to medicinal products that are subject to medical prescription, AIFA carries out monitoring action aimed at verifying compliance with two main conditions: (i) that the price of medicinal products can be increased every two years (in odd years); and (ii) that the increase may not exceed the target inflation rate; and
- (ii) as to medicinal products that are not subject to medical prescription, the price is freely determined by manufacturers.

With reference to classes A and H medicinal products, a specific negotiation procedure between AIFA and pharmaceutical companies holding marketing authorizations is provided for in the applicable legislation in order to determine the price of the relevant medicinal products. The negotiation procedure is conducted according to the following criteria: therapeutic value, pharmacovigilance data, prices in other EU countries, prices of similar products within the same pharmaceutical therapeutic group, internal market forecasts, the number of potential patients and therapeutic innovation.

In order to determine the price of medicinal products, the negotiation between AIFA and pharmaceutical companies requires completion of a four-stage procedure:

- (i) Pharmaceutical companies file with AIFA a specific reimbursement and pricing request supported by a dossier aimed at proving: (a) a positive cost/benefit ratio (which means that the medicinal product

(x) is to be considered useful for the treatment of diseases for which there is no effective treatment, or provides a more appropriate response in respect of products already available for the same therapeutic indications; or (y) presents a more favorable risk/benefit ratio if compared with other medicinal products already available); or (b) other elements of interest for the NHS, if the medicinal product does not present a significant clinical superiority compared with to other products already available or that it is at least as effective and safer than other products already available.

- (ii) AIFA's Technical Scientific Committee ("CTS") provides its opinion on reimbursement by an evaluation of the clinical therapeutic value.
- (iii) AIFA's Pricing and Reimbursement Committee evaluates the dossier, also taking into consideration the consumer spending data provided by the National Observatory on the Use of Medicines (OSMED), and hears from the company as part of the negotiation.
- (iv) The outcome of the negotiation is submitted to the CTS for its final opinion and then to AIFA's Management Board for approval.

The results of the negotiation procedure are published in the Italian Official Gazette.

A price agreement reached between AIFA and the manufacturer of the medicinal product lasts 24 months and is subject to automatic renewal for an additional period of 24 months unless previously terminated by either party. In the event of changes in the therapeutic indications of a medicinal product leading to a potential increase in its use, the negotiation must be re-opened before the expiration of the agreement. It is common practice to establish a proportionate relationship between the price paid and the volume of sales of the medicinal product under the negotiation procedure.

If there is no agreement on the price, then the medicinal product is classified as not reimbursable and listed in class C.

As a general principle, the price of medicinal products, which includes VAT (applied at a rate of 10%), includes the ex-factory value (which is the price of industry revenue) and the amounts due to wholesalers and pharmacists.

The pricing negotiation procedure for generics does not differ from that of other medicines, although, based on applicable regulations, the manufacturer should guarantee at least a 20% price reduction below the price of the originator reference medicinal product.

The Italian NHS only reimburses classes A and H medicinal products; no reimbursement is provided for class C medicinal products.

In Italy, a reference price system ("RPS")—which is one of the instruments used to control public expenditure on pharmaceutical products—has been in effect since 2001.

Under the RPS, the Italian NHS reimburses the lowest price among the prices of off-patent medicinal products made with equal composition in active ingredients, with the same pharmaceutical form, the same method of administration, the same number of units and the same unit dosage. When patients refuse the substitution of a medicine eligible for generic substitution and/or if the doctor prescribes a pharmaceutical product with a price higher than the reference price and specifically provides that the said pharmaceutical product cannot be substituted with other products, the difference is paid by the patient.

In Italy, medicinal products are traditionally distributed by pharmacies. Exceptions include a few widely used or very expensive products, which are distributed directly by the Local Health Authorities ("LHAs") and by hospitals. Drug reimbursement is made by the LHAs to the pharmacies.

Once a medicinal product is authorized, it is not immediately eligible for reimbursement.

As a very general principle, reimbursement is provided for essential medicinal products, namely products: (i) for diseases for which no therapeutic alternative exists; (ii) for which the medicinal products already available on the market do not provide a satisfactory or appropriate answer; and (iii) which present a better cost/benefit and risk/benefit analysis than those offered by medicinal products already on the market. Even in the absence of these characteristics, medicinal products that are as safe and effective as those already on the market may be reimbursable depending on the result of their cost/benefit evaluation.

When evaluating eligibility for reimbursement, AIFA also takes into consideration the following factors in relation to the medicinal products: the sales price in other EU Member States; the therapeutic class; the

foreseen market share in the following 24 months; the impact on expenditures for the Italian NHS; and its place in the industrial environment.

To apply for reimbursement, the marketing authorization holder must submit an application alongside documentation proving, among other things, a positive cost/benefit ratio to demonstrate that the medicinal products is to be considered useful for the treatment of diseases for which there is no medical care, or that it provides more adequate treatment compared to other medicinal products already on the market.

Finally, please note that the procedural rules illustrated above and the criteria for the negotiation of the refundability and price of medicinal products by the Italian NHS, between AIFA and the pharmaceutical companies, will probably change in near future.

More precisely, in July 2019, the Ministry of Health, in agreement with the Ministry of Economy and Finance, issued a draft decree on new procedures for negotiating the refundability and price of medicinal products. The legislative text has already received a favorable opinion from the State–Regions Conference and is now continuing its procedure for registration by the Court of Auditors and publication in the Official Journal of the Italian Republic. It is therefore expected that this new law will enter into force this year.

This does not, however, mean that completely new regulations will be introduced, but only that some of the existing rules regarding the agreement between the pharmaceutical companies and AIFA, concerning the refundability and price of medicinal products marketed in Italy, will be subject to amendments in the future.

### ***Reimbursement of Medicinal Products in Spain***

Public reimbursement of medicinal products is tightly regulated by Spanish legislation under the equality principle within the whole Health National System (the “HNS”) and only applies to those prescription medicinal products (prescribed by pharmacies, hospitals or healthcare centers) that have been previously included in the HNS through a specific authorization granted by the state authorities. Medicines covered by the HNS do not include OTC medicines, but do include some generics prescription. All medicines not included in the HNS can be priced freely on the open market, subject to a notification issued to the State Authorities.

State authorities (i.e., the Health Ministry) approve the prices and reimbursement conditions for the authorized medicinal prescription products that apply all over the territory mainly taking into account the characteristics of the pathologies involved, public expenditure rationalization, the impact on the public budget, a cost-effectiveness analysis and the existence of similar medicinal products. Generally, the maximum reimbursement price (the “Industry Price”) will be equal to or below the price that would apply if the corresponding medicinal products were dispensed to patients who are not beneficiaries of the HNS. To settle the Industry Price, the pharmaceutical industry is obligated to provide to the state authorities all the information on technical, financial and economic matters related to the relevant medicinal product.

Public reimbursement is subject to the reference price system (the “RPS”), which is the maximum amount that the corresponding prescribed medicinal product included in each medicinal group (with the same active pharmaceutical ingredient and route of administration) will be public reimbursed, i.e., the RPS is a product group pricing benchmark that will influence the Industry Price for an individual product where the relevant product group has previously been allocated a reference price. The RPS is set by taking into account the lowest cost/treatment/length of treatment of the medicinal products of each group. The retail price is based on the RPS, adding wholesale and pharmacy commercial margins, respectively, which are tightly regulated by the state authorities.

The Industry Price of a particular medicinal product represents the maximum price at which an HNS medicine will be reimbursed at the manufacturing level. The marketing authorization holder who will deliver into the supply chain (typically, to a wholesaler who will sell it on to a pharmacy) will therefore be aware of the maximum price that it will collect. Wholesaler and pharmacy margins are fixed by legislation.

The retail price equals the Industry Price plus the wholesale and pharmacy commercial margins.

Once the Industry Price is fixed, it is updated annually by the state authorities and can be modified if changes in financial and technical circumstances or the evaluation of their therapeutic use so warrants.

State authorities are entitled to proceed with the necessary inspections in order to verify if the maximum prices are being adhered to, and if they are not, state authorities can initiate penalty proceedings that may lead to the imposition of fines and the seizure of the medicinal products affected in the case of a breach.

Pricing set in other jurisdictions cannot replace the equivalent price in Spain without a particular resolution issued by the state authorities which establishes the price, which can be equal to or different from the price of other jurisdictions.

### ***Reimbursement of Medicinal Products in Russia***

In Russia, there are two types of reimbursement schemes:

1. *For all in-patients and emergency care (under the Federal Fund for Mandatory Medical Insurance).* This scheme covers all pharmaceutical products that a patient receives in a hospital (e.g., prescription-only medicines and any OTC medicines). The pharmaceutical products must be included in a standard of care developed by the Ministry of Health for the particular disorder and in the “essential drugs” list (“VEP”), a list of drugs which should be made available in an in-patient setting, and which is used as the basis for a number of out-patient reimbursement schemes (See “—Russia—Overview—VEP Circulation”). In the case of an individual patient not responding to treatment with a VEP medicine or having an adverse reaction to a VEP, the medical panel may substitute a non-VEP medicine.
2. *For out-patients.* The out-patient reimbursement schemes include: (a) the ONLS (Population Drug Coverage) scheme covering eligible categories of patients; (b) the VZN scheme (also referred to as the “High-cost nosologies” scheme) covering patients with high-cost diseases, including mucoviscidosis and multiple sclerosis, which are together referred to as the DLO scheme; and (c) other schemes also covering certain groups of patients (e.g., patients suffering from orphan diseases, children under three years of age and others).

Depending on their entitlement, out-patients are eligible to receive either free or partially subsidized prescription medicines. In order to receive benefits, some patients (e.g., veterans and disabled persons) are required to present authorization documents confirming their status and can obtain a wide range of drugs for different disorders. Other patients must be included in the federal register for specified disorders and can only obtain the medicines that are included in the list of the drugs relevant to their disorder.

A prescription is issued by a consulting physician. An out-patient can obtain necessary drugs in authorized (state or municipal) drugstores.

The general rules of VEP pricing are described under “—Russia—Overview—VEP Circulation.” A VEP drugs manufacturer can apply annually to re-register (to increase) a price under the rules set by the government to recover the manufacturer’s operating costs. Distributors and drugstores can each apply a mark-up that is limited by regional legislatures. Federal and regional authorities have the right to control retail prices and pricing during procurement procedures.

All reimbursable pharmaceutical products are purchased by hospitals and authorized drugstores solely through public procurement procedures which tender for drugs by reference to their INN (taking into account the dosage, dosage form and other significant features of medicinal products), their compliance with the registered price with respect to VEP (overpricing is prohibited in the case of VEP subject of public procurement) and which give priority to medicinal products from EAEU countries in an auction. Non-VEP product pricing is not regulated by the state. If the products subject to public procurement procedures are not VEP, the initial maximum contract price in the context of public procurement procedures is defined using the current market price.

The Order of the Ministry of Health “On the Approval of the Public Pharmacare Strategy in the Russian Federation till 2025 and its Implementation Schedule” sets forth a new reimbursement system in Russia, to be implemented in the future. Pilot projects have been introduced in selected regions. For example, the Kirov region has set up a co-payment scheme whereby a patient pays only 10% of the price of cardiovascular disease medicines with the remaining 90% being funded from the regional budget. Several other reimbursement models are under consideration, including the introduction of a reference pricing system of interchangeable drugs under which patients, if they choose, will be required to pay any difference between the reference price of the generic version and the actual price of the desired original product.

## MANAGEMENT

### The Senior Secured Notes Issuer

The Senior Secured Notes Issuer is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany. The Senior Secured Notes Issuer is indirectly controlled by the Sponsors. The Senior Secured Notes Issuer is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Frankfurt am Main under number HRB 109897. The Senior Secured Notes Issuer's principal business address is c/o STADA Arzneimittel Aktiengesellschaft, Stadastraße 2-18, 61118 Bad Vilbel, Germany. The Senior Secured Notes Issuer's managing directors can be contacted at the Senior Secured Notes Issuer's business address. The board of directors of the Senior Secured Notes Issuer is composed of the following members:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Andreas Grundhöfer . . . . .	54	Managing Director
Mark Keatley . . . . .	62	Managing Director

Set forth below is a brief summary of the biographies of the Senior Secured Notes Issuer's managing directors.

*Andreas Grundhöfer* serves as a director of the Senior Secured Notes Issuer. Mr. Grundhöfer is also a managing director of Intertrust (Deutschland) GmbH and, in this role, he serves on the board of directors for a number of other securities issuing vehicles. Prior to that, Mr. Grundhöfer was director of primary servicing at Mount Street MS Services Limited from 2014 to 2016, and head of asset management in Germany at Morgan Stanley Bank AG from 2007 to 2014. Mr. Grundhöfer holds a degree in business and economy from the Verwaltungs-und Wirtschaftsakademie in Bonn.

The biography of Mark Keatley, who also serves as Chief Financial Officer of STADA, is presented below.

### STADA

STADA is a public limited liability company (*Aktiengesellschaft*) organized under the laws of Germany. STADA is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Frankfurt am Main under number HRB 71290 and its business address is at Stadastraße 2-18, 61118 Bad Vilbel, Germany. STADA is managed by its Executive Board and is supervised by its Supervisory Board. The members of both the Executive Board and the Supervisory Board can be contacted at STADA's business address. STADA also has an advisory board (the "Advisory Board").

### Executive Board

The Executive Board is composed of the following members:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Peter Goldschmidt . . . . .	55	Chief Executive Officer
Mark Keatley . . . . .	62	Chief Financial Officer
Miguel Pagan Fernandez . . . . .	54	Chief Technical Officer

Set forth below is a brief summary of the biographies of the members of our Executive Board.

*Peter Goldschmidt* was appointed Chief Executive Officer of STADA on September 1, 2018. Prior to that, from 2013 to 2018, he served as the President and Head of North America of Sandoz USA, and, from 2009 to 2013, as the Global Executive Member for Central and Eastern Europe for Sandoz. Previously, from 2008 to 2009, Mr. Goldschmidt held various senior management positions in Europe, Asia, and the United States for the Novartis Group. Mr. Goldschmidt holds a master's degree in sociology from University of Münster in Germany.

*Mark Keatley* was appointed Chief Financial Officer of STADA on September 27, 2017. Mr. Keatley serves also as a Managing Director of the Senior Secured Notes Issuer. Mr. Keatley was a partner in Albrecht, Prock & Partners from 2013 to 2017, and served as the Chief Financial Officer of Actavis International from 2012 to 2013 and of the Actavis Group from 2005 to 2012. Prior to that, Mr. Keatley served as the Chief Financial Officer of Famar, a European contract manufacturer, from 2002 to 2005, and Ashanti Goldfields, a gold mining company which was listed on the London and New York Stock Exchanges from 1994 to 2000. Mr. Keatley also worked in investment banking and private equity at the International



Finance Corporation. He also served in a non-executive role on the board of directors of pharmaceuticals companies Medichem SA (headquartered in Spain) from 2014 to 2017, MS Pharma Ltd. (headquartered in Jordan) from 2016 to 2018 and Novaxa AG (headquartered in Switzerland) from 2016 to 2018 and the telecommunications company P4 Holdings (Poland) from 2015 to 2017. At MS Pharma Ltd. Mr. Keatley also served as chair of the audit committee. Mr. Keatley holds a master's degree from Cambridge University and an MBA from Stanford Business School and is a qualified accountant in the UK. Mr. Keatley has informed us, and we have communicated to the Group's employees, that he intends to step down as CFO prior to the conclusion of the term of his employment contract in September 2020. Mr. Keatley has agreed to continue as CFO until a suitable successor has been selected, and no date has been identified for his departure.

*Miguel Pagan Fernandez* was appointed Chief Technological Officer of STADA on July 1, 2018. Prior to that, from 2015 to 2018, Mr. Pagan served as the Head of Global Technical Operations (Solids and Special Technologies) of Novartis and was a member of the Executive Committee, acting as Global Head of Technical Operations, of Sandoz. Mr. Pagan was also Head of Technical Operations for Europe and India at Sandoz Novartis. Previously, from 2012 to 2014, Mr. Pagan served as Vice President of Americas and Consumer Care Operations and, from 2011 to 2012, he served as Associate Vice President Pharmaceutical Operations in Puerto Rico at Merck & Co. (MSD). Mr. Pagan also served, from 2007 to 2011, as General Manager of Las Piedras in Puerto Rico. Mr. Pagan holds a master's degree in industrial pharmacy from Complutense University of Madrid and an MBA from the Madrid Chamber of Commerce and Industry.

### ***Executive Board Compensation***

STADA's Executive Board received total compensation of €5.7 million in the year ended December 31, 2018, €11.5 million in the year ended December 31, 2017, and €14.9 million in the year ended December 31, 2016 (in each case calculated in accordance with German accounting standard DRS17 and including fixed and variable components of current and non-current compensation and termination benefits).

### ***Supervisory Board***

The Supervisory Board is composed of the following nine members, of which six are shareholder representatives and three are employee representatives in accordance with the German statutory requirements:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dr. Günter von Au . . . . .	68	Chairman
Markus Damm . . . . .	48	Deputy Chairman
Dr. Eric Cornut . . . . .	62	Member
Jan Nicolas Garbe . . . . .	38	Member
Benjamin Kunstler . . . . .	40	Member
Dr. Klaus Scheja . . . . .	57	Member
Bruno Schick . . . . .	48	Member
Dr. Michael Siefke . . . . .	52	Member
Jens Steegers . . . . .	39	Member

Set forth below is a brief summary of the biographies of the members of our Supervisory Board.

*Dr. Günter von Au* has served as the Chairman of the Supervisory Board of STADA since 2017. Dr. von Au also serves as the Chairman of the Supervisory Board of Synlab International GmbH, since 2017, and of CeramTec Holding GmbH, since 2014. Prior to that, Dr. von Au served as the Chairman of the Advisory Board of Tyczka GmbH, since 2014, member of the Advisory Board of Röchling GmbH, since 2013, member of the Board of Directors of Clariant AG, since 2018, and member of the Supervisory Board of Bayernwerk AG, since 2009. Prior to that, from 2001 to 2012, he served as the Chief Executive Officer of Süd Chemie, in Munich and the United States. Dr. von Au holds a degree in textile and synthetic chemistry from Reutlingen University and holds a doctorate in chemistry from University of Tübingen.

*Markus Damm* has served as the Deputy Chairman of the Supervisory Board of STADA since 2019. Markus Damm is also Head of IT Corporate Consulting and Applications Finance and Controlling at STADA beginning in 2010. Prior to that, from 2007 to 2010, Markus Damm was Consultant in Applications Finance and Controlling at STADA. From 2002 to 2006, he was Consultant at CIBER Novasoft (formerly AWARDIS GmbH). Markus Damm holds a degree in mechanical engineering (Dipl. Ing.) from

Fachhochschule Gießen Friedberg and a degree in industrial engineering (Dipl. Wirt.-Ing.) from Fachhochschule Bielefeld.

*Dr. Eric Cornut* has served as a Member of the Supervisory Board of STADA since 2016. Dr. Eric Cornut also has served as the Chairman of the Supervisory Board of A. Menarini Industry Farmaceutiche Riunite Srl since 2018 and is a member of the board of directors of Helsinn Healthcare SA since 2017. Prior to that, from 2014 to 2016, Dr. Cornut was the Chief Ethics, Compliance and Policy Officer of Novartis International AG. Previously, from 2012 to 2014, he served as the Chief Commercial Officer of Novartis Pharma AG. Prior to that, from 2007 to 2012, Dr. Cornut was Head of Pharma, Europe, at Novartis Pharma AG. Prior to that, from 2000 to 2007, he was President of Novartis France SA. Dr. Cornut holds a Master of Law from University of California Berkeley and holds a doctorate from University of Basel.

*Jan Nicolas Garbe* has served as a Member of the Supervisory Board of STADA since 2017. Mr. Garbe is also a Principal at Cinven GmbH since 2011. Prior to that, from 2010 to 2011, he was an associate at The Boston Consulting Group. Mr. Garbe holds a Master of Sciences in Industrial Engineering and Management from Technische Universität Hamburg Harburg and a Master of Arts in Economics, Management and Organization from Universitat Autònoma de Barcelona.

*Benjamin Kunstler* has served as a Member of the Supervisory Board of STADA since 2017. He is also a member of the Supervisory Board of BCPE Max Dutch JVCo B.V., an affiliate of Centrient Pharmaceuticals, since 2018 and was previously a board member of DSP and a member of the board of BPL from 2013 to 2016. Mr. Kunstler is also a Managing Director at Bain Capital (Private Equity) Europe LLP. Prior to that, from 2003 to 2008, he was a consultant at Bain & Company in Paris (France) and Boston (USA). Mr. Kunstler holds a Master of Science from École Centrale Paris and an MBA from Harvard Business School.

*Dr. Klaus Scheja* has served as a Member of the Supervisory Board of STADA since 2019. Dr. Scheja is also Team Leader of Medical Affairs and safety officer for medical devices at STADA since 2011. He is also Information Officer since 2005. Prior to that, from 2002 to 2011, Dr. Scheja was Manager of Medical Affairs at STADA. Previously, from 2000 to 2002, he was a product manager for vaccines at Niddapharm GmbH (STADA Group). In 2000, Dr. Scheja was Key-Account Manager at R.P. Scherer & Co. KG. Dr. Klaus Scheja holds a degree in chemistry (PhD Biochemistry) from Philipps University Marburg.

*Bruno Schick* has served as a Member of the Supervisory Board of STADA since 2017. Mr. Schick has been employed at Cinven GmbH since 2003 and became a managing director in 2006. Prior to that, from 1999 to 2003, he served as the Chief Executive Officer at Surplex AG and, from 1996 to 1999, he was a financial analyst and associate at Goldman Sachs. Mr. Schick is also a manager of German Topco and German Midco, and he serves as a director of Avalon Co Invest Beteiligungs GmbH, Avalon Beteiligungs GmbH, Cinven GmbH and Novala Beteiligungs GmbH. Mr. Schick holds a degree in macroeconomics and economics from University of Tübingen and a European Masters in management and business from ESCP/EAP European School of Management.

*Dr. Michael Siefke* has served as a Member of the Supervisory Board of STADA since 2017. Since 2018, Dr. Siefke is also a member of the Supervisory Board of Centrient Pharmaceuticals Netherlands B.V. He is also a member of the Advisory Board of Pacific (BC) TopCo Limited since 2017 and a member of the Supervisory Board of Wittur Holding GmbH since 2015. Dr. Siefke has also been employed by Bain Capital Private Equity Beteiligungsberatung GmbH since 2002 and became a Managing Director in 2006. Prior to that, from 2013 to 2017, he served as the Chairman of the Supervisory Board of FTE Automotive GmbH. Previously, from 2012 to 2017, he served as a member of the Supervisory Board of Bravida AB and, from 2011 to 2016, as a member of the Supervisory Board of IMCD N.V. Dr. Siefke holds a degree in finance, accounting and auditing and a doctorate in international accounting from Westfälische Wilhelms Universität Münster.

*Jens Steegers* has served as Member of the Supervisory Board of STADA since 2014. Jens Steegers is also an independent works council representative at STADA (Chairman from 2014 to 2018). Prior to that, from 2006 to 2014, Mr. Steegers was an engineer in pharmaceutical development and chemical analysis for STADA. Mr. Steegers holds a degree in chemical engineering from University of Applied Sciences of Niederrhein. He also holds an MBA from FOM Hochschule für Ökonomie und Management.

### *Supervisory Board Committees*

The Supervisory Board has an audit committee (the “Audit Committee”), a chairman’s committee (the “Chairman’s Committee”), a nomination committee (the “Nomination Committee”) and a compliance committee (the “Compliance Committee”). It may establish any other committee if so decided by the Supervisory Board.

#### *Audit Committee*

The Audit Committee consists of four members. As of the date of this offering memorandum, the Audit Committee consists of Dr. Michael Siefke (Chairman), Jan Nicolas Garbe, Benjamin Kunstler and Jens Steegers.

The Audit Committee deals in particular with questions of accounting, risk management, compliance, the required independence of the auditor, the award of the audit contract to the auditor, the determination of the main areas for the audit and with the fees agreement with the auditor. In addition, the Audit Committee discusses the annual and interim reports with the Executive Board prior to their publication.

#### *Chairman’s Committee*

The Chairman’s Committee consists of four members. As of the date of this offering memorandum, the Chairman’s Committee consists of Dr. Günter von Au (Chairman), Dr. Klaus Scheja, Bruno Schick and Dr. Michael Siefke.

The Chairman’s Committee assumed the tasks of the former human resources committee and is additionally responsible for the preparation of Supervisory Board meetings, coordination of communication with the Executive Board, monitoring execution of resolutions taken by the Supervisory Board, preparatory work in connection with efficiency checks on the Supervisory Board and the preparation (including reasoned draft resolutions) of the Supervisory Board decisions on conflicts of interest in the Executive Board. In addition, the Chairman’s Committee issues decisions on reserved matters and urgent matters where a decision from the Supervisory Board cannot reasonably be obtained. For all further transactions requiring approval that are not assigned solely to the Chairman’s Committee, this committee prepares a recommendation for resolution for the Supervisory Board.

#### *Nomination Committee*

The Supervisory Board established a Nomination Committee in the financial year 2016. As of the date of this offering memorandum, the Nomination Committee consists of Dr. Günter von Au (Chairman), Bruno Schick and Dr. Michael Siefke.

#### *Compliance Committee*

The Compliance Committee consists of four members. As of the date of this offering memorandum, the Compliance Committee consists of Dr. Günter von Au (Chairman), Dr. Eric Cornut, Dr. Michael Siefke and Bruno Schick.

The Supervisory Board regularly reviews the efficiency of its activities. The subject of the efficiency review is, in addition to the qualitative criteria to be established by the Supervisory Board, in particular the procedural flows in the Supervisory Board and the information flow between the committees and the plenary as well as the prompt and sufficient provision of information to the Supervisory Board.

#### *Supervisory Board Compensation*

STADA’s Supervisory Board received total compensation of €0.8 million in the year ended December 31, 2018, €1.1 million in the year ended December 31, 2017 and €1.1 million in the year ended December 31, 2016. Remuneration consisted of fixed and variable compensation.

#### *Advisory Board*

Members of the Advisory Board are appointed by the Executive Board. The purpose of the Advisory Board is to support and advise the Executive Board and to make recommendations and suggestions with regard to the German market. The Advisory Board has ten members as of the date of this offering memorandum.

### **Management Employment Contracts**

The current contracts with the members of the Executive Board terminate on August 31, 2021 in the case of Mr. Goldschmidt, on September 26, 2020, in the case of Mr. Keatley and on June 30, 2021, in the case of Mr. Pagan. The contracts contain standard non-compete provisions.

### **Management Practices**

We are committed to fulfilling corporate governance requirements. We maintain internal guidelines (such as purchasing directives) and a code of conduct which is to be countersigned and adhered to by our employees. In addition, an internal audit department regularly carries out examinations on different topics.

### **Share Ownership**

Following the STADA Acquisition, the Sponsors implemented a management equity participation plan for the benefit of the Group's senior management. In addition, pursuant to an employee share ownership program, STADA sold 38 of its own shares, at an average price of €80.92 per share, in the year ended December 31, 2018.

### **Insurance for Directors and Officers**

For the benefit of our directors and officers, we have entered into a global directors and officers ("D&O") insurance policy. The policy covers our present, former and future members of the executive bodies (Executive Board, Managing Directors, Supervisory Board, Advisory Board and their deputies, authorized signatories and senior staff, as well as employees that assume certain regulatory functions such as compliance officer, data protection officer or security officer).

Our insurance cover applies worldwide and provides for an insured limit of €250 million per claim and per year for the members of the Executive Board and the Supervisory Board and €100 million per claim and per year for all other insured persons.

The D&O insurance covers financial losses due to wrongful acts in respect of claims filed against the insured persons in writing, as well as the defense of liability claims and their settlement. Insurance coverage does not extend to claims due to certain deliberate acts by the insurees and there is no insurance cover for contractual penalties, fines or punitive or exemplary damages, to the extent insurance is prohibited by law.

## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

In the course of its ordinary business activities, the Group enters into related party transactions with its shareholders, key management personnel and associates. Such transactions generally involve arm's length agreements on market terms.

### **Transactions with Key Management Personnel**

As of December 31, 2018, members of STADA's executive management control less than 0.1% of our voting shares. Pursuant to German accounting standard DRS 17, STADA's Executive Board received total compensation (including fixed and variable components of both current and non-current compensation, including termination benefits) of €5.7 million in the year ended December 31, 2018. See "*Management—STADA—Executive Board Compensation.*"

In connection with the STADA Acquisition, the Sponsors established a management equity participation plan; see "*Management—Share Ownership.*"

Certain members of our Advisory Board are self-employed and provide consulting services to the Group on a regular basis. According to STADA, the amounts and transactions involved are not material.

### **Transactions with Related Companies**

For an overview of the material transactions between the Group and its related parties that affected the Group's financial position or net income as of and for each of the years ended December 31, 2017 and 2018, see the STADA Financial Statements included elsewhere herein.

### **Transactions with Entities Affiliated with our Directors and Executive Management**

During the periods under review, we entered into transactions with companies controlled in part by, or affiliated with, certain of our directors or members of our executive management team. None of these transactions were material, and all of these transactions were conducted in the ordinary course of our business.

### **Transaction and Consulting Services Agreements**

In the context of the STADA Acquisition, the Group has also entered into transaction and consulting services agreements with the Sponsors pursuant to which the Sponsors provided management, consulting, monitoring or advisory services.



## PRINCIPAL SHAREHOLDERS

STADA Arzneimittel AG is an *Aktiengesellschaft* organized under the laws of Germany whose common shares are listed and traded publicly on the regulated market of the Düsseldorf Stock Exchange. As of the date of this offering memorandum, STADA had a common share capital of €162,090,344 divided into 62,342,440 registered non-par value common shares with a nominal value of €2.60 per share. As of the date of this offering memorandum, STADA also held 84,273 treasury shares.

German law mandates that shareholders notify STADA without undue delay if certain voting right thresholds are exceeded. The following table sets forth all the shareholdings carrying voting rights in excess of 3% of STADA's issued share capital. Percentages are rounded to two decimal places.

<u>Name</u>	<u>Percentage of Voting Rights Attached to Shares</u>
Bain Capital Investors, LLC . . . . .	93.70%
Cinven Capital Management (VI) General Partner Limited . . . . .	93.70%

### Management Equity Plan

In the context of the STADA Acquisition, the Sponsors established a management equity participation plan; see “*Management—Share Ownership*.”

### Investors' Agreement

In connection with the STADA Acquisition, the Sponsor Holdcos and Lux TopCo have entered into an investors' agreement concerning the Sponsor Holdcos' subscription for securities in Lux TopCo, and the rights and obligations of the Sponsor Holdcos in connection with their investment in, and the governance of, Lux TopCo and its subsidiaries (the “Investors' Agreement”). The Investors' Agreement provides for the governance rules of Lux TopCo and its subsidiaries and sets forth certain corporate actions that may be taken only with the consent of the representatives of the Sponsors. The Investors' Agreement provides certain protective rights, such as pre-emptive rights, to the Sponsor Holdcos in the event of an offering of new equity or debt securities in Lux TopCo and/or its subsidiaries to any Sponsor Holdco or its affiliates (the “Investor Securities”), and offers certain tag along rights and rights of first offer in the event of a transfer of existing Investor Securities. Moreover, direct and indirect transfers of interests in the Investor Securities are generally restricted for a period of five years, except for certain unrestricted transfers (including, among other things, transfers to affiliates, indirect transfers pursuant to permitted syndications or in connection with a management equity participation program for the benefit of the Group's senior management). The Investors' Agreement also provides a framework for the Sponsors to jointly exit from their investment in the Group.

Under the Investors' Agreement each of Bain Holdco and Cinven Holdco have the right to appoint an equal number of directors to the board of Lux TopCo, and resolutions of Lux TopCo require a simple majority vote plus the affirmative vote of at least one director nominated by each of the Sponsor Holdcos at meetings and each Sponsor Holdco has the right to replicate its representation and governance right on the board of Lux TopCo on the boards of each of its subsidiaries. Each Sponsor is entitled to appoint (i) any number of persons who are employees, officers or directors of such Sponsor and (ii) one person who is not an employee, officer or director of such Sponsor as observers to the Board of Lux TopCo.

## DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

### Senior Secured Credit Facilities Agreement

#### *Overview and Structure*

In connection with the financing of the Acquisition, the Senior Secured Notes Issuer, on August 17, 2017, entered into the Senior Secured Credit Facilities Agreement with, among others, Barclays Bank PLC as agent, the Security Agent, and Barclays Banks PLC, Nomura Bank International plc, UBS Europe SE (as successor in title to UBS Limited), Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, ING Bank NA, a branch of ING DIBA AG, Jefferies Finance Europe SCSp, J.P. Morgan Limited and Société Générale S.A. Frankfurt Branch, as mandated lead arrangers. The Senior Secured Credit Facilities Agreement was amended and restated on September 29, 2017 and May 29, 2018 and supplemented by an Additional Facility Notice (as defined therein) dated October 9, 2018.

The Senior Secured Credit Facilities provide for the following senior facilities (i) a senior term loan facility in a principal amount of €405,613,431.99 which has been drawn in full (“Facility B1”), (ii) a senior term loan facility in a principal amount of €235,000,000 which has been drawn in full (“Facility B2” and together with Facility B1, “Facility B”), (iii) a senior term loan facility in a principal amount of €759,386,568.01 which has been drawn in full (“Facility C (EUR)”), (iv) a senior term loan facility in a principal amount of £266,000,000 which has been drawn in full (“Facility C (GBP)” and together with Facility C (EUR), “Facility C”), (v) a senior term loan facility in a principal amount of €705,000,000 which has been drawn in full (“Facility D”) and (vi) a senior term loan facility in a principal amount of € which is available to be drawn in connection with, *inter alia*, the Transactions (“Facility E”) and (vii) a senior revolving credit facility in a principal amount of €400,000,000 (the “Revolving Credit Facility”). The commitments made available under these facilities may be increased in the future. Facility B, Facility C, Facility D and Facility E are collectively referred to as the “Senior Term Facilities” for the purposes of this description. The Senior Term Facilities and the Revolving Credit Facility are collectively referred to as the “Senior Credit Facilities” for the purposes of this description.

The Senior Term Facilities (other than Facility E) have been utilized by the Senior Secured Notes Issuer, German Holdco and (other than Facility D) certain of its restricted subsidiaries which accede to the Senior Secured Credit Facilities Agreement as additional borrowers of the applicable Senior Term Facility and may be applied in or towards: (i) directly or indirectly, the consideration payable, or refinancing of the consideration paid or payable for the acquisition of any shares and/or warrants in STADA (including the repayment of any loan made under the Revolving Credit Facility to bridge such a purchase); (ii) the refinancing or otherwise discharging of certain existing indebtedness of STADA and its subsidiaries (the “STADA Existing Debt”) and payments of related breakage costs and any other costs related to such refinancing; (iii) financing the payment directly or indirectly of certain fees, costs and expenses incurred in connection with any Acquisition, including in the case of Facility D, any amounts due or payable in connection with the Delisting Offer; (iv) (other than in the case of Facility D) any other purpose contemplated by the funds flow statement and/or tax structure memorandum relating to the Acquisition; (v) (other than in the case of Facility D) the payment into certain escrow accounts for application towards the purposes described in the preceding sub paragraphs within certain prescribed timeframes; and (vi) in the case of Facility C only, the general corporate purposes of the Group.

Facility B2 has been utilized in full by the Senior Secured Notes Issuer to finance the refinancing or otherwise discharging of the STADA Existing Debt, payments of related breakage costs and any other costs related to such refinancing.

Facility E has been made available to the Senior Secured Notes Issuer and may be applied in or towards (directly or indirectly) amongst other things: (i) financing or refinancing consideration paid or payable for the Takeda Acquisition and/or the Walmark Acquisition (including, in each case, any purchase price adjustments); (ii) refinancing or otherwise discharging existing indebtedness of the Walmark Group and paying any related breakage costs, redemption premium, make-whole costs and other fees, costs and expenses payable in connection with such refinancing or discharge; and (iii) financing or refinancing the payment of any costs relating to the Takeda Acquisition and/or the Walmark Acquisition and all other fees, costs, expenses and other amounts incurred in connection with the Takeda Acquisition and/or Walmark Acquisition and/or to the extent not applied for the purpose set out in paragraphs (i) to (iii) above, and provided that the Takeda Acquisition Completion Date has occurred, financing or refinancing the general corporate purposes and/or working capital requirements of the Group.

The Revolving Credit Facility has been and may continue to be utilized by the Senior Secured Notes Issuer, German Holdco and certain of its restricted subsidiaries which accede to the Senior Secured Credit Facilities Agreement as additional borrowers, in euros, sterling, U.S. dollars and certain other currencies readily available in the relevant interbank market (subject to obtaining the consent of all the relevant Revolving Credit Facility lenders) by the drawing of cash advances, the issue of letters of credit and ancillary facilities (on a bilateral and fronted basis).

The Revolving Credit Facility may be used for: (i) the general corporate purposes and/or working capital requirements of the Group (including any costs in connection with an acquisition of the STADA shares); (ii) any payments required pursuant to or in connection with the DPLTA or any payments in connection with a squeeze out procedure to acquire STADA shares pursuant to German law; (iii) financing the purchase price for the acquisition of any STADA shares and/or warrants in each case to the extent required to bridge such purchase price pending a receipt by the Senior Secured Notes Issuer of an equity contribution or a loan under Facility B or Facility C; (iv) any other purpose contemplated by the tax structure memorandum relating to the Acquisition and/or the refinancing of the STADA Existing Debt; and (v) financing any amount of any increase in the offer price in respect of STADA shares as a result of the settlement date in respect of those shares occurring prior to the date on which the profit distribution for the financial year ended 2016 is paid by STADA.

In addition to the existing Senior Credit Facilities, the Senior Secured Credit Facilities Agreement includes (in addition to other permissions under the limitation on indebtedness covenant) the ability (without double counting against the limitation on indebtedness covenant) to incur additional indebtedness (including under one or more uncommitted additional facilities within the Senior Secured Credit Facilities Agreement and/or any additional notes and/or other facilities or notes documented outside the Senior Secured Credit Facilities Agreement) up to an aggregate amount of the greater of €500,000,000 and 100% of LTM EBITDA (as defined in the Senior Secured Credit Facilities Agreement and subject to certain customary additions including the amount of prepayments and buy backs), plus an unlimited amount, provided that, pro forma for the incurrence of such additional facilities or permitted alternative debt: (i) if such indebtedness is secured on the Senior Secured Notes Collateral, and subject to the Intercreditor Agreement such that such liabilities rank *pari passu* with Facility B and Facility C, the consolidated senior secured net leverage ratio (as described in the Senior Secured Notes Indenture) does not exceed 5.00:1; or (ii) if the indebtedness does not fall within paragraph (i), the fixed charge coverage ratio does not exceed 2.00:1, and in each case, subject to certain other conditions being met. Some or all of the preceding incurrence baskets may have been or may from time to time be used to permit the incurrence of indebtedness under Facility C, Facility D and/or Facility E.

#### ***Availability***

Facility B, Facility C and Facility D have been utilized in full. The undrawn amount of Facility E could remain available up to (and including) July 31, 2020 subject to the terms of Facility E.

The Revolving Credit Facility was available to be utilized from (and including) August 21, 2017 (the “Closing Date”) to (and including) the date which is one month prior to the maturity date of the Revolving Credit Facility.

#### ***Conditions Precedent***

Utilizations of the Senior Credit Facilities and, where applicable, escrow withdrawals are subject to customary conditions precedent.

#### ***Interest and Fees***

Loans under the Senior Credit Facilities will initially bear interest at rates per annum equal to EURIBOR or, for loans denominated other than in Euro, LIBOR, plus an applicable margin, which in each case will be subject to a decreasing margin ratchet based on the ratio of consolidated senior secured net debt to consolidated pro forma EBITDA (each as defined in the Senior Secured Credit Facilities Agreement) (the “Senior Secured Net Leverage Ratio”).

If EURIBOR is less than zero, EURIBOR shall be deemed to be zero in respect of loans made under Facility B, Facility C (EUR), Facility D, Facility E or the Revolving Credit Facility (as applicable). If LIBOR is less than zero, LIBOR shall be deemed to be zero in respect of loans made under the Revolving Credit Facility or Facility C (GBP) (as applicable).

A commitment fee will be payable on the aggregate undrawn and uncanceled amount of the Revolving Credit Facility from the Closing Date to the end of the availability period applicable to the Revolving Credit Facility at a rate of 35% of the applicable margin for the Revolving Credit Facility. Commitment fees will be payable quarterly in arrears and on the date the Revolving Credit Facility is cancelled in full or on the date on which the relevant lender cancels its commitment.

Default interest will be calculated as an additional 1% on the defaulted amount.

### ***Repayments***

The loans made under each Senior Term Facility will be repaid in full on the date that is seven years from the Closing Date. In respect of the Revolving Credit Facility, each advance will be repaid on the last day of the interest period relating thereto, subject to an ability to roll over cash drawings. All outstanding amounts under the Revolving Credit Facility will be repaid on the date falling six years from the Closing Date. Amounts repaid by the borrowers on loans made under the Revolving Credit Facility may be reborrowed, subject to certain conditions.

In addition, the Senior Term Facilities may be voluntarily cancelled with not less than three business days' notice and voluntarily prepaid on not less than five business days' notice and the Revolving Credit Facility may be voluntarily cancelled and/or prepaid with not less than three business days' notice (as applicable).

### ***Mandatory Prepayment***

The Senior Secured Credit Facilities Agreement requires mandatory prepayment in full or in part in certain circumstances, including:

- on an initial public offering which does not constitute a change of control (with the percentage of proceeds to be prepaid subject to the Senior Secured Net Leverage Ratio) (a "Listing Prepayment");
- from certain net cash proceeds received by the Senior Secured Group from certain asset disposals, to the extent not otherwise applied for a permitted purpose and required to be applied in prepayment of the Senior Credit Facilities and subject to a *de minimis* amount; and
- unless otherwise agreed by the majority lenders under the Senior Secured Credit Facilities Agreement, for each financial year (commencing with the first full financial year following the Closing Date), a percentage of excess cash flow in the event that excess cash flow exceeds a minimum threshold amount (subject to certain adjustments based on anticipated debt service, distributions to be paid to non-controlling shareholders and certain other expenses), which percentage decreases as the Senior Secured Net Leverage Ratio decreases (an "Excess Cash Flow Prepayment").

Upon the occurrence of a change of control (as defined in the Senior Secured Credit Facilities Agreement), each lender shall be entitled to require prepayment of its commitments within a prescribed time period. A change of control shall include:

- any person or group becoming the beneficial owner of more than 50% of the voting power of the Senior Secured Notes Issuer other than in connection with a transaction or series of transactions in which the Senior Secured Notes Issuer shall become the wholly owned subsidiary of a parent entity (as defined in the Senior Secured Credit Facilities Agreement) subject to certain conditions;
- the Senior Notes Issuer ceasing to directly own 100% of the total issued share capital of the Senior Secured Notes Issuer (or any successor entity as a result of certain mergers);
- prior to certain potential mergers of STADA permitted by the Senior Secured Credit Facilities Agreement, the Senior Secured Notes Issuer or German Holdco ceasing to (directly or indirectly) own a percentage of the issued share capital of STADA (excluding treasury shares) at least equal to 60% of such total issued share capital;
- following certain potential mergers of STADA permitted by the Senior Secured Credit Facilities Agreement, the Senior Secured Notes Issuer ceasing to (directly or indirectly) own a percentage of the issued share capital of German Holdco at least equal to 60% of such total issued share capital; and
- on a disposal of all or substantially all of the assets of the Senior Secured Group (as defined below).

At the election of the Senior Secured Notes Issuer, amounts required to be prepaid pursuant to a Listing Prepayment or an Excess Cash Flow Prepayment may instead be applied in repayment of any other indebtedness of the Senior Secured Group ranking *pari passu* with Facility B and Facility C.

### ***Guarantees and Security***

The Senior Credit Facilities are currently guaranteed by the Senior Secured Notes Issuer, German Holdco, STADA, Internis Pharmaceuticals Limited, Thornton & Ross Limited, Natures Aid Ltd., Clonmel Healthcare Limited, Crosspharma Limited, Centrafarm B.V., Eurogenerics SA and Laboratorio STADA, S.L.U. and are currently secured by first-ranking pledges over (i) the share capital of the Senior Secured Notes Issuer held by the Senior Notes Issuer; (ii) the share capital of German Holdco by the Senior Secured Notes Issuer; (iii) the material bank accounts of the Senior Secured Notes Issuer and German Holdco; (iv) the structural intra group receivables owed to the Senior Notes Issuer by the Senior Secured Notes Issuer; (v) receivables owed to the Senior Secured Notes Issuer and German Holdco by any material subsidiary; (vi) the shares and securities account held by German Holdco in respect of STADA shares it owns and (vii) pledges of the shares in each Senior Secured Notes Guarantor and Laboratorio STADA, S.L.U. and material bank accounts of each Senior Secured Notes Guarantor.

Subject to certain adjustments and agreed security principles in the Senior Secured Credit Facilities Agreement, the Senior Secured Notes Issuer is required to ensure that members of the Senior Secured Group that generate at least 80% of Consolidated EBITDA (as defined in the section entitled “*Description of the Senior Secured Notes*”) and members of the Senior Secured Group that are Material Subsidiaries (as defined in the Senior Secured Credit Facilities Agreement), are guarantors under the Senior Secured Credit Facilities Agreement on the date when the annual financial statements of the Senior Secured Notes Issuer are required to be delivered to the agent under the Senior Secured Credit Facilities Agreement.

The provision and the terms of the security and guarantees set forth above will in all cases be subject to certain limitations and are at all times and in all cases subject to the requirements of applicable law and the other matters set forth in the Senior Secured Credit Facilities Agreement.

### ***Representations and Warranties***

The Senior Secured Credit Facilities Agreement contains certain representations and warranties (subject to certain agreed qualifications and with certain representations being repeated), including: (i) status, binding obligations, non-conflict with other obligations, power and authority, validity and admissibility in evidence, governing law and enforcement, consents, filings and laws applicable to operations and *pari passu* ranking; (ii) no insolvency, no litigation, environmental laws, taxation, and filing and stamp taxes; (iii) no default, financial statements, group structure, and no misleading information in relation to the information memorandum, the financial model relating to the Group and certain diligence reports provided; (iv) no liens, guarantees or indebtedness, except as permitted; (v) legal ownership and holding company activities; (vi) intellectual property and pension schemes; (vii) offer documents contain all material terms and conditions of the offer; and (viii) centre of main interests and compliance with sanctions and anti-corruption laws.

Certain representations and warranties were made on the Closing Date and will be repeated on the date of each utilization, on the first day of each interest period and at certain other times.

### ***Covenants***

The Senior Secured Credit Facilities Agreement contains certain of the incurrence covenants, information undertakings and related definitions (with, in each case, certain adjustments), including (i) limitations on indebtedness, (ii) limitations on restricted payments, (iii) limitations on liens (which includes a restriction on designating certain credit facilities and/or hedging obligations secured on the Senior Notes Collateral as Super Senior Liabilities (as defined in the section entitled “*Description of Certain Financing Arrangements—Intercreditor Agreement*”) unless, prior to such designation, the Senior Term Facilities have been refinanced in full (ignoring any participation (x) of a lender which has been rolled over in a refinancing (or otherwise) of any Senior Term Facility and/or (y) in respect of which a lender has declined prepayment)), (iv) limitation on restrictions on distributions from restricted subsidiaries, (v) limitations on sale of assets and subsidiary stock, (vi) limitations on affiliate transactions, (vii) merger and consolidation, (viii) suspension of covenants on achievement of investment grade status, (ix) additional guarantees and intercreditor agreements, (x) no impairment of security interests and (xi) designation of restricted and unrestricted subsidiaries.

In addition, the Senior Secured Credit Facilities Agreement also requires the Senior Secured Notes Issuer and certain of its restricted subsidiaries to observe certain other customary positive and negative covenants, subject to certain exceptions and grace periods, including covenants relating to:



(i) authorizations and consents; (ii) compliance with laws; (iii) *pari passu* ranking; (iv) insurances; (v) payment of taxes; (vi) pension schemes; (vii) compliance with certain environmental laws; (viii) offer documents and, in relation to Facility D, the Delisting Offer; (ix) maintenance of centre of main interests; (x) provision of guarantees and security, further assurance and accession to the Intercreditor Agreement; (xi) compliance with sanctions and anti-corruption laws; (xii) maintenance of ratings; (xiii) preservation of assets; (xiv) holding company; (xv) annual and quarterly financial statements; and (xvi) compliance certificates.

Solely for the benefit of the lenders participating in the Revolving Credit Facility, the Senior Secured Credit Facilities Agreement requires that, in the event that the aggregate amount of all cash loans drawn under the Revolving Credit Facility (excluding any utilizations by way of letters of credit (or bank guarantees) or ancillary facilities or any amounts utilized to fund any agreed fees in connection with the syndication of certain of the Senior Credit Facilities) exceeds 35% of the total commitments under the Revolving Credit Facility on the relevant testing date or, if higher, the total commitments under the Revolving Credit Facility as at the original date of the Senior Secured Credit Facilities Agreement (the “Revolving Test Condition”), the Senior Secured Net Leverage Ratio does not exceed 8.75 to 1.00. The Senior Secured Net Leverage Ratio is based on the definitions and adjustments in the Senior Secured Credit Facilities Agreement, which may differ from similar definitions in the Senior Secured Notes Indenture and the equivalent definitions described in this offering memorandum.

The Senior Secured Credit Facilities Agreement contains an equity cure provision enabling the shareholders of the Senior Secured Notes Issuer to make shareholder injections by way of debt and/or equity to the Senior Secured Notes Issuer to (i) increase the consolidated pro forma EBITDA under the Senior Secured Credit Facilities Agreement, (ii) decrease consolidated senior secured net debt as defined in the Senior Secured Credit Facilities Agreement, or (iii) prepay the Revolving Credit Facility so that the Revolving Test Condition is no longer satisfied. The equity cure right may not be exercised on more than five occasions during the term of the Senior Credit Facilities and may not be utilized in consecutive financial quarters.

It is intended that certain agreed covenants and other provisions of the Senior Secured Credit Facilities Agreement will fall away on the satisfaction of certain release conditions, being (i) the occurrence of a listing in respect of which the Senior Secured Group’s ratio of consolidated total net debt to consolidated pro forma EBITDA does not exceed an agreed ratio; (ii) the Senior Secured Notes Issuer having a long-term corporate credit rating equal to or better than Baa3 according to Moody’s Investor Services Limited or BBB according to Standard & Poor’s Rating Services; or (iii) Facility B or Facility C has achieved and maintained investment grade status.

### ***Events of Default***

The Senior Secured Credit Facilities Agreement provides for substantially the same events of default as under the Notes. In addition, the Senior Secured Credit Facilities Agreement provides for additional events of default, subject to customary materiality qualifications and grace periods, including (i) breach of the financial covenant, provided that, in the event of such breach, only a majority of the Lenders under the Revolving Credit Facility shall initially be entitled to take enforcement action; (ii) inaccuracy of a representation or statement when made; (iii) invalidity and unlawfulness of the Senior Credit Facilities financing documents; and (iv) material failure to comply with the Intercreditor Agreement.

### ***Governing Law***

The Senior Secured Credit Facilities Agreement and any non-contractual obligations arising out of or in connection with it, are governed by, construed in accordance with and will be enforced in accordance with English law although the information undertakings, restrictive covenants, events of default and related definitions scheduled to the Senior Secured Credit Facilities Agreement will be interpreted in accordance with New York law (without prejudice to the fact that the Senior Secured Credit Facilities Agreement is governed by English law).

### **Intercreditor Agreement**

#### ***General***

To establish the relative rights of certain of our creditors under our financing arrangements, the Senior Secured Notes Issuer, the Senior Notes Issuer and the Guarantors, the Trustee are party to the Intercreditor Agreement.

By accepting an Additional Note, holders of the Additional Notes will be deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement.

The Intercreditor Agreement and any non-contractual obligations arising out of or in connection with it, are governed by, construed in accordance with and will be enforced in accordance with English law and sets out various matters governing the relationship of the creditors to our group including the relative ranking of certain debt of the Senior Secured Notes Issuer, the Senior Notes Issuer, the Guarantors and any other person that becomes party to the Intercreditor Agreement as a Debtor or Third-party Security Provider (as defined below), when payments can be made in respect of debt of the Debtors or Third-party Security Providers, when enforcement action can be taken in respect of that debt, the terms pursuant to which certain of that debt will be subordinated upon the occurrence of certain insolvency events and turnover provisions and provisions related to the enforcement of shared security.

The following description is a summary of certain provisions contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety and we urge you to read that document because it, and not the description that follows, defines certain rights of the holders of the Additional Notes and of the Trustee. Capitalized terms used but not defined herein have the meanings given to them in the Intercreditor Agreement.

For the purposes of this description:

“Senior Secured Group” shall mean the Senior Secured Notes Issuer and any of its Restricted Subsidiaries.

References to the “Senior Secured Notes” shall include the Senior Secured Notes and any other notes, securities or other debt instruments issued or to be issued by or in relation to which a New Debt Financing (as defined herein) has been made available to or by a member of the Senior Secured Group which are designated by the Senior Secured Notes Issuer as Senior Secured Notes under the Intercreditor Agreement and references to the “Topco Notes” shall include the Senior Notes and any other notes, securities or other debt instruments issued or to be issued by or in relation to which a New Debt Financing has been made available to or by a Topco Borrower (as defined below) (which shall include the Senior Notes Issuer) which are designated by the Senior Secured Notes Issuer as Topco Notes and references to “Topco Shared Security” shall include the Shared Collateral.

The Intercreditor Agreement uses the term “the Company” to refer to the Senior Secured Notes Issuer and “Senior Secured Notes Liabilities” to refer to the Senior Secured Notes and certain other indebtedness of the Senior Secured Notes Issuer. It uses the term “Topco” to refer to the Senior Notes Issuer and “Topco Notes Liabilities” to refer to the Senior Notes and certain other indebtedness of the Senior Notes Issuer.

### ***Ranking and Priority***

#### ***Priority of Debts***

The Intercreditor Agreement provides that the liabilities owed by the Senior Secured Notes Issuer and each other debtor (under the Intercreditor Agreement (together, the “Debtors”) (other than the Senior Notes Issuer and any member of the Senior Secured Group which is designated as a Topco Borrower under the Intercreditor Agreement (a “Topco Borrower”))) to the Secured Parties (as defined below) shall rank in right of priority and payment in the following order and are postponed and subordinated to any prior ranking liabilities as follows:

- (i) first, liabilities owed to (i) the lenders, issuing banks and ancillary lenders in relation to the Senior Secured Credit Facilities Agreement or any future senior secured facilities agreements (a “Permitted Senior Secured Facilities Agreement”) (the “Senior Lender Liabilities”), (ii) the lenders, issuing banks, and ancillary lenders in relation to any future super senior facilities agreement (a “Permitted Super Senior Secured Facilities Agreement”) and any hedge counterparty under a hedging agreement that on or after the Designation Date (as defined below) is designated by the Senior Secured Notes Issuer as super senior (together the “Super Senior Liabilities” and creditors thereof being the “Super Senior Creditors”), (iii) the Trustee and any trustee in relation to future senior secured notes (each a “Senior Secured Notes Trustee”) (other than certain amounts paid to it in its capacity as trustee), the holders of the Senior Secured Notes or future senior secured notes (the “Senior Secured Notes”) and the Security Agent in relation to the Senior Secured Notes (the “Senior Secured Notes Liabilities”), (iv) the lender under any future loan made by the issuer of any Senior Secured Notes (if so designated by the Senior Secured Notes Issuer in its discretion and not including, for the avoidance of doubt, the

Senior Secured Notes Issuer) to a member of the Group for the purposes of on lending the proceeds of any Senior Secured Notes together with any additional or replacement loan made on substantially the same terms (the “Senior Secured Notes Proceeds Loan Liabilities”), (v) the arrangers, agents, issuing banks and lenders under any cash management facility (a “Cash Management Facility” and the liabilities under a Cash Management Facility being the “Cash Management Facility Liabilities”), (vi) the hedge counterparties in relation to any hedging agreements that are not Super Senior Liabilities (together with the hedging designated by the Senior Secured Notes Issuer as being Super Senior Liabilities, the “Hedging Liabilities”), (vii) the lenders in relation to any future second lien facility agreement (a “Second Lien Facility Agreement” and the liabilities to the lenders under a Second Lien Facility Agreement being the “Second Lien Lender Liabilities”), (viii) any second lien notes trustee (other than certain amounts paid to it in its capacity as trustee), the holders of any future second lien notes and the Security Agent in relation to any second lien notes (such second lien notes being “Second Lien Notes” and the liabilities in respect of such Second Lien Notes being the “Second Lien Notes Liabilities” and together with the Second Lien Lender Liabilities, the “Second Lien Liabilities” and creditors thereof being the “Second Lien Creditors”), (ix) any agent or trustee under any finance documents relating to any of the aforementioned liabilities, any agent or trustee under the Topco Liabilities (as defined below) and to any agent or trustee in relation to certain other liabilities of such agent or trustee (together the “Agent Liabilities”) and (x) the Security Agent, *pari passu* and without any preference between them; and

- (ii) second, all liabilities owed (i) to the trustee (other than certain amounts paid to it in its capacity as trustee), and the holders of the Senior Notes and any future notes issued by or in relation to which a New Debt Financing has been made available to or by a Topco Borrower and designated by the Senior Secured Notes Issuer as Topco Notes and the Security Agent in relation to such Topco Notes (the “Topco Notes Liabilities”), (ii) under any future loan facility made available to any Topco Borrower (the “Topco Facility Liabilities” and together with the Topco Notes Liabilities, the “Topco Liabilities”), and (iii) the liabilities owed under any future loan (a “Topco Proceeds Loan”) made by any Topco Borrower for the purpose of on lending the proceeds of any Topco Notes or Topco Loans (the “Topco Proceeds Loan Liabilities”), *pari passu* and without any preference between them.

The Intercreditor Agreement provides that the liabilities owed by any Topco Borrower to the Secured Parties (as defined below) shall rank *pari passu* in right and priority of payment and without any preference between them in respect of (i) the Senior Lender Liabilities, (ii) the Super Senior Liabilities, (iii) the Senior Secured Notes Liabilities, (iv) the Cash Management Facility Liabilities, (v) the Hedging Liabilities, (vi) the Second Lien Lender Liabilities, (vii) the Second Lien Notes Liabilities, (viii) the Topco Liabilities, (ix) the Topco Proceeds Loan Liabilities and (x) the Agent Liabilities.

The Intercreditor Agreement provides that the intra group liabilities owed by one member of the Senior Secured Group (an “Intra Group Lender”) to another member of the Senior Secured Group (other than any Senior Secured Notes Proceeds Loan Liabilities or Topco Proceeds Loan Liabilities) (the “Intra Group Liabilities”) will be postponed and subordinated to the liabilities owed by the Debtors and Third-party Security Providers to the creditors under the Senior Lender Liabilities, Super Senior Liabilities, Senior Secured Notes Liabilities, Cash Management Facility Liabilities, Hedging Liabilities, Second Lien Lender Liabilities and Second Lien Notes Liabilities, Agent Liabilities and Notes Liabilities (such creditors, together with the Security Agent, any receiver or delegate, any creditor of the Agent Liabilities and any arranger with respect to the Secured Liabilities, the “Secured Parties”).

The Intercreditor Agreement also provides that the liabilities owed by any member of the Senior Secured Group (other than any Topco Proceeds Loan Liabilities) to a holding company of the Senior Secured Notes Issuer or to any other person who becomes a subordinated creditor (a “Subordinated Creditor”) under the Intercreditor Agreement (the “Subordinated Liabilities”) will be postponed and subordinated to the liabilities owed by the Debtors and Third-party Security Providers to the Secured Parties, any person acceding to the Intercreditor Agreement as an unsecured creditor (an “Unsecured Creditor”) and to the Intra Group Liabilities.

*Priority of Transaction Security and Topco Independent Transaction Security*

The Intercreditor Agreement provides that the Transaction Security (as defined below) shall subject to the terms of the Intercreditor Agreement secure the applicable secured obligations (but only to the extent that such Transaction Security is expressed to secure those liabilities) in the following order:

- (i) first, the Senior Secured Creditor Liabilities (as defined below) *pari passu* and without any preference between them;
- (ii) second, the Second Lien Liabilities *pari passu* and without any preference between them; and
- (iii) third (to the extent of the Topco Shared Security), the Topco Liabilities *pari passu* and without any preference between them,

in each case, as applicable, subject to the provisions set out under “—*Application of Proceeds—Order of Application—Transaction Security*” and without prejudice to the section titled “—*Equalization*.”

In addition, the Intercreditor Agreement provides each of the parties thereto agrees that the Topco Independent Transaction Security (as defined below) created pursuant to the applicable transaction security documents relating to such Topco Independent Transaction Security and designated as such by the Company in accordance with the Intercreditor Agreement (the “Topco Independent Transaction Security Documents”) (irrespective of whether the related Topco Independent Transaction Security Documents are themselves expressed to be first-ranking or of any lower ranking security) shall rank the Topco Independent Secured Obligations (as defined below) *pari passu* and without any preference between them (but only to the extent such Topco Independent Transaction Security is expressed to secure those liabilities) subject to the provisions set out under “—*Application of Proceeds—Order of Application—Topco Independent Transaction Security*” and without prejudice to the section titled “—*Equalization*.”

For the purposes of this description only:

“*Debt Documents*” means the Intercreditor Agreement and the documents creating or evidencing the Cash Management Facility Liabilities, the Hedging Liabilities, the Second Lien Liabilities, the Senior Secured Liabilities, any Senior Secured Notes Proceeds Loan Liabilities, the Topco Liabilities, the Topco Proceeds Loan Liabilities, the unsecured liabilities (“Unsecured Liabilities”) of any Unsecured Creditors, the Subordinated Liabilities and the Intra Group Liabilities and any other document designated as such by the Security Agent and the Senior Secured Notes Issuer.

“*Designation Date*” means the first date that the Senior Secured Notes Issuer designates any Liabilities as Super Senior Liabilities in accordance with the Intercreditor Agreement.

“*Finance Documents*” means the Senior Secured Credit Facilities Agreement, any Permitted Senior Secured Facilities Agreement, any Permitted Super Senior Secured Facilities Agreement, the indenture in respect of any Senior Secured Notes, Second Lien Facility Agreement, the indenture in respect of any Second Lien Notes, the facility documenting any Topco Facility Liabilities, the indenture in respect of any Topco Notes and any document designated by the Senior Secured Notes Issuer as an unsecured finance document under and in accordance with the Intercreditor Agreement.

“*Secured Creditors*” means the Senior Secured Creditors, Second Lien Creditors and the Topco Creditors (each as defined below).

“*Secured Debt Documents*” means the Finance Documents relating to the Senior Secured Liabilities, Second Lien Liabilities and Topco Liabilities and hedging agreements relating to the Hedging Liabilities and any other document designated as such by the Security Agent and the Senior Secured Notes Issuer.

“*Senior Liabilities*” means:

- (a) prior to the Designation Date, the Senior Lender Liabilities, the Cash Management Facility Liabilities and the Hedging Liabilities; and
- (b) on or after the Designation Date, the Senior Lender Liabilities, the Cash Management Facility Liabilities and the *Pari Passu* Hedging Liabilities (as defined below).

“*Third-party Security Provider*” means the Senior Notes Issuer and any person that is not a member of the Senior Secured Group that has provided Transaction Security over any or all of its assets (including Topco Shared Security) but is not a Debtor in respect of any direct borrowing or guarantee liabilities of the applicable secured obligations to which that Transaction Security relates and which is designated by the



Senior Secured Notes Issuer (in its discretion) and, in each case, which has not ceased to be Third-party Security Provider in accordance with the terms of the Intercreditor Agreement.

*“Topco Independent Secured Obligations”* refers all liabilities and all other present and future obligations at any time due, owing or incurred by any Topco Independent Obligor (as defined below) to any Topco Secured Party under the Topco Finance Documents (including to the Security Agent under the parallel debt pursuant to the applicable provision under the Intercreditor Agreement), both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

*“Topco Independent Transaction Security”* refers to security (other than Transaction Security) which is created, or expressed to be created, by German Midco, and Topco Borrower or its affiliates (in each case, other than a member of the Senior Secured Group) and designated as such by the Senior Secured Notes Issuer (in its discretion) (together, the “Topco Independent Obligors”) in favor of the Security Agent as agent or trustee for the other Topco Secured Parties (or if such trustee arrangements are not legally possible, in favor of all the Topco Secured Parties or in favor of the Security Agent under a parallel debt or similar structure). Topco Independent Transaction Security shall secure all liabilities and present and future obligations of each Topco Independent Obligor to the Topco Secured Parties under the Topco Finance Documents.

*“Topco Shared Security”* refers to security at any time which is created, or expressed to be created, over (a) each of (i) the shares in the Senior Secured Notes Issuer held by the Senior Notes Issuer and (ii) all receivables owed to the Senior Notes Issuer by the Senior Secured Notes Issuer (including any Topco Proceeds Loan and the Topco Proceeds Loan and the Topco Proceeds Loan Liabilities, as applicable) and (b) to the extent not included in (a) above, (i) the shares in the Senior Secured Notes Issuer held by any direct shareholder of the Senior Secured Notes Issuer, (ii) all receivables owed to a Topco Investor (as defined herein), Subordinated Creditor or other Holding Company or shareholder of the Senior Secured Notes Issuer by the Senior Secured Notes Issuer (including any Topco Proceeds Loan and the Topco Proceeds Loan Liabilities), (iii) the shares in any Topco Borrower which is a member of the Senior Secured Group, (iv) all receivables owed by a member of the Senior Secured Group under any Topco Proceeds Loan (or, in the case of a Topco Borrower which is a member of the Senior Secured Group, any Senior Secured Notes Proceeds Loan), (v) any escrow account relating to the proceeds of any Topco Liabilities and (vi), any other assets not falling within limbs (b)(i), (ii), (iii), (iv) and (v) of this paragraph of a Topco Borrower which is a member of the Senior Secured Group, in each case to the extent provided for by the Topco Finance Documents at any time and designated as Topco Shared Security by the Senior Secured Notes Issuer (in its discretion) in favor of the Security Agent as agent or trustee for the other Secured Parties (or if such trustee arrangements are not legally possible, in favor of all the Secured Parties or in favor of the Security Agent under a parallel debt or similar structure). Topco Shared Security shall secure all liabilities and present and future obligations of each Topco Borrower that is not a member of the Senior Secured Group and each of its Restricted Subsidiaries (as defined in the documents governing the relevant Topco Notes or Topco Facility (as the case may be)) (the “Topco Group”), each Debtor and each Third-party Security Provider to the Secured Parties under the Secured Debt Documents.

*“Transaction Security”* refers to security (from the Senior Secured Group, any Third-party Security Provider and Topco Shared Security (but excluding, for the avoidance of doubt, Topco Independent Transaction Security), as defined below) which is created, or expressed to be created, in favor of the Security Agent as agent or trustee for the other Secured Parties (or if such trustee arrangements are not legally possible, in favor of all the Secured Parties or in favor of the Security Agent under a parallel debt or similar structure). Transaction Security which is not Topco Shared Security shall secure all liabilities and present and future obligations of the Debtors and Third-party Security Providers to the Secured Parties (other than the creditors under the Topco Liabilities (the “Topco Secured Parties”)) under the Debt Documents (other than the finance documents relating to the Topco Liabilities (the “Topco Finance Documents”)).

The Senior Secured Notes and the Senior Secured Notes Guarantee will be Senior Secured Notes Liabilities for the purposes of the Intercreditor Agreement and the Senior Notes and Senior Notes Guarantee will be Topco Notes Liabilities for the purposes of the Intercreditor Agreement. On the New Issue Date, no Second Lien Lender Liabilities, Second Lien Notes Liabilities or Super Senior Liabilities will be outstanding. Such liabilities and liabilities in respect of other new debt financings may only be incurred and/or designated if not prohibited under the terms of the Debt Documents, including, without limitation, the covenants applicable to the Senior Notes described under *“Description of the Senior Secured*



*Notes—Certain Covenants.*” and the covenants applicable to the Senior Secured Notes described in the Senior Secured Notes Indenture.

#### *Guarantees and Security: Topco Creditors*

The creditors in respect of the Topco Liabilities (the “Topco Creditors”) have the right to take, accept or receive the benefit of:

- (i) any Topco Shared Security from any member of the Senior Secured Group or from a Third-party Security Provider in respect of the Topco Liabilities if and to the extent legally possible and subject to any agreed security principles, at the same time it is also offered either:
  - A. to the Security Agent as agent or trustee for the other Secured Parties (or applicable class thereof) in respect of their Liabilities; or
  - B. in the case of any jurisdiction in which effective security cannot be granted in favor of the Security Agent as agent or trustee for the Secured Parties (or applicable class thereof):
    - (I) to the other Secured Parties (or applicable class thereof) in respect of their Liabilities; or
    - (II) to the Security Agent under a parallel debt structure, joint and several creditor structure or agency structure for the benefit of the other Secured Parties (or applicable class thereof), and ranks in the same order of priority as described under “—*Priority of Debts*” or “—*Priority of Security*” above, provided that all amounts received or recovered by any Topco Creditor with respect to such Topco Shared Security are immediately paid to the Security Agent for application as set out under “—*Application of Proceeds*” below;
- (ii) any guarantee, indemnity or other assurance from any member of the Senior Secured Group in respect of the Topco Liabilities in addition to any guarantee, indemnity or assurance in the original form of any Topco Finance Documents or the Intercreditor Agreement, or given to all the Secured Parties as security for the liabilities of the Topco Group, each Debtor and any Third-party Security Provider to the Secured Parties under the Debt Documents if, subject to any agreed security principles:
  - A. (except for any guarantee, indemnity or other assurance permitted by the Finance Documents), the Secured Parties other than the Topco Creditors (the “Priority Secured Parties”) already benefit from such a guarantee, indemnity or other assurance or at the same time it is also offered to the Priority Secured Parties and ranks in the same order of priority as described under “—*Priority of Debts*” above, as applicable; and
  - B. all amounts received by any Topco Creditor with respect to such guarantee, indemnity or assurance are immediately paid to the Security Agent for application as set out under “—*Application of Proceeds*” below; and
- (iii) any security, guarantee indemnity or other assurance from any member of the Topco Group:
  - A. in connection with any escrow or similar arrangements relating to amounts held by a person which is not a member of the Topco Group prior to release of those amounts to a member of the Topco Group;
  - B. in connection with any actual or proposed defeasance, redemption, prepayment, repayment, purchase or other discharge of any Secured Liabilities not prohibited by the Intercreditor Agreement; or
  - C. as otherwise permitted by the Intercreditor Agreement.

No security (other than pursuant to the secured documents relating to Topco Independent Transaction Security or Topco Shared Security or as described above) shall be granted by a member of the Senior Secured Group in respect of any Topco Liabilities.

#### *New Debt Financing*

The Intercreditor Agreement provides, subject to certain conditions, for the implementation of existing, additional, supplemental or new financing arrangements that will constitute, for the purposes of the Intercreditor Agreement, Senior Lender Liabilities, Senior Secured Notes Liabilities, Cash Management Facility Liabilities, Hedging Liabilities (and after the Designation Date (i) Super Senior Hedging

Liabilities (as defined herein) and (ii) Hedging Liabilities other than Super Senior Hedging Liabilities (the “Pari Passu Hedging Liabilities” and the counterparties of which are referred to as “Pari Passu Hedge Counterparties”)), Second Lien Liabilities, Topco Liabilities or Super Senior Liabilities (each a “New Debt Financing”). The conditions include certification by the Senior Secured Notes Issuer that such New Debt Financing is not prohibited under the terms of the Finance Documents.

Such financing arrangements may be implemented by way of refinancing, replacement, exchange, set-off, discharge or increase of any such new, existing, additional, supplemental or new financing arrangement under the relevant finance documents. In connection with and in order to facilitate any New Debt Financing, each agent in respect of any Priority Secured Liabilities (as defined herein) and the Security Agent (and each other person party to a Transaction Security document or a Topco Independent Transaction Security document) is authorized and instructed to enter promptly into any new security document, amend or waive any term of an existing security document and/or release any asset from the Transaction Security or Topco Independent Transaction Security (as the case may be) subject to certain conditions, including as regards the terms of such security (which shall be, unless otherwise agreed by the Senior Secured Notes Issuer or otherwise required by the Senior Secured Notes Issuer to the extent that the existing Transaction Security or Topco Independent Transaction Security is not being amended or released and the new Transaction Security or new Topco Independent Transaction Security only secures the New Debt Financing, substantially the same as the terms applicable to the existing Transaction Security or Topco Independent Transaction Security over equivalent assets).

Where any indebtedness (“Permitted Acquired Indebtedness”) which is not prohibited under the Finance Documents is incurred by or in connection with the acquisition of (i) a person or any of its subsidiaries who, after the Closing Date, becomes a Restricted Subsidiary or merges, consolidates or is otherwise combined with a Restricted Subsidiary, or (ii) in relation to an asset of any such person or which is otherwise acquired after the Closing Date ((i) and (ii) together an “Acquired Person or Asset”), any security, guarantee, indemnity or other assurance against loss in respect of such New Debt Financing which is subsisting at the date when the conditions to the incurrence of such New Debt Financing set out in the Intercreditor Agreement have been satisfied (or is to be granted thereafter, including subject to any condition or periodic testing) shall be permitted to subsist and there is no requirement to offer that security, guarantee, indemnity or other assurance in respect of any other liabilities under any Debt Document. No security, guarantee, indemnity or other assurance against loss is required to be given by any member of the Topco Group in respect of any liabilities (including under any Debt Document) (i) over any Acquired Person or Asset if this would breach a contractual undertaking applicable to the Topco Group or is excluded or exempt from being given under the Agreed Security Principles (as defined in the Senior Secured Facilities Agreement), (ii) over any asset required (including subject to any condition) to provide credit support in relation to any Permitted Acquired Indebtedness (other than as a result of any obligation to extend any Transaction Security rateably for the benefit of such Permitted Acquired Indebtedness), or (iii) where the grant of such security, guarantee, indemnity or other assurance against loss is prevented by the documentation relation to such Permitted Acquired Indebtedness or would give rise to an obligation (including any payment obligation but not including any obligation to extend any Transaction Security rateably for the benefit of such Permitted Acquired Indebtedness) under or in relation thereto.

### ***Permitted Payments***

#### ***Permitted Payments in Respect of the Senior and Super Senior Debt***

The Debtors and Third-party Security Providers may make payment in respect of the Senior Lender Liabilities, Senior Secured Notes Liabilities, Super Senior Lender Liabilities and Cash Management Facility Liabilities (together with the Hedging Liabilities, the “Senior Secured Creditor Liabilities,” the creditors in respect thereof being the “Senior Secured Creditors”) at any time, provided that following certain Acceleration Events (as defined in the Intercreditor Agreement) under the Senior Secured Facilities Agreement any Permitted Senior Secured Facilities Agreement or Senior Secured Notes Indenture or Permitted Super Senior Secured Facilities Agreement or following certain insolvency events in relation to a member of the Senior Secured Group, payments may only be made by Debtors or Third-party Security Providers and received by creditors in accordance with the provisions described below under “—Application of Proceeds” provided that after the Designation Date there shall be no obligation to turnover any such payments received, other than those related to an enforcement of Transaction Security or a Distressed Disposal (as defined below) of assets subject to the Transaction Security.

Any failure to make a payment in accordance with the Senior Secured Finance Documents following an Acceleration Event (as defined in the Intercreditor Agreement) as required by the Intercreditor Agreement shall not prevent the occurrence of an event of default under such applicable Senior Secured Finance Documents.

*Permitted Payments in Respect of the Second Lien Debt*

Prior to the later of (i) the Super Senior Discharge Date (as defined below) and (ii) the first date on which all of the Senior Liabilities, the Super Senior Liabilities and the Senior Secured Notes Liabilities (together, the “Senior Secured Liabilities” and together with the Second Lien Liabilities and Topco Liabilities being the “Secured Liabilities”) have been discharged (the “Senior Secured Discharge Date”), the Debtors may only make specified scheduled payments in respect of the Second Lien Liabilities, in accordance with the finance documents governing such Second Lien Liabilities, subject to compliance with certain conditions in the Intercreditor Agreement.

The principal conditions are that the relevant payment (if it is a payment of principal or capitalized interest) is not prohibited by any prior ranking financing agreement, including any Permitted Super Senior Secured Facilities Agreement, Permitted Senior Secured Facilities Agreement and any Senior Secured Notes Indenture (or if it is so prohibited, that all necessary consents have been obtained to permit it), no payment stop notice (“Second Lien Payment Stop Notice”) has been issued to the agent or trustee for the relevant Second Lien Liabilities and no payment default (subject to a *de minimis* threshold in the case of amounts other than principal, interest or certain fees) is continuing under any Permitted Senior Secured Facilities Agreement, Permitted Super Senior Secured Facilities Agreement, Cash Management Facility document or Senior Secured Notes document. A Second Lien Payment Stop Notice will cease to apply, at the latest (subject to other exceptions), 120 days after delivery of the applicable Second Lien Payment Stop Notice and no Second Lien Payment Stop Notice may be delivered by the Security Agent in reliance on a Senior Secured Event of Default (as defined below) more than 45 days after the occurrence of the relevant event of default. No more than one Second Lien Payment Stop Notice may be served (i) with respect to the same event or set of circumstances, or (ii) in any period of 360 days.

Certain specified payments in respect of Second Lien Liabilities are also permitted at all times, notwithstanding that a payment stop notice is outstanding or such a payment default is continuing. These payments and basket amounts are substantially similar to those referenced for Topco Liabilities in (ii) of the next paragraph.

*Permitted Payments in Respect of Topco Liabilities*

Prior to the date which is the later of the Senior Secured Discharge Date and the first date (the “Second Lien Discharge Date”) on which all Second Lien Liabilities have been discharged (the “Priority Discharge Date”), the Senior Secured Notes Issuer, Topco Borrowers, Third-party Security Providers and other members of the Senior Secured Group may only make specified scheduled payments (including any other direct or indirect step, matter, action or dealing in relation to any Topco Liabilities otherwise prohibited under the Intercreditor Agreement) under the Topco Liabilities or under any Topco Proceeds Loan (together the “Topco Group Liabilities”) to the Topco Creditors or any holding company of the Senior Secured Notes Issuer or other lender in respect of a Topco Proceeds Loan (in respect of the Topco Proceeds Loan Liabilities only) (such payments, collectively, “Permitted Topco Payments”):

(i) if:

- A. no Topco Payment Stop Notice (as defined below) is outstanding;
- B. no payment default (subject to a *de minimis* threshold in the case of amounts other than principal, interest or certain fees) has occurred and is continuing under any Permitted Senior Secured Facilities Agreement, Permitted Super Senior Secured Facilities Agreement, Cash Management Facility document or Senior Secured Notes document (a “Senior Secured Payment Default”), or under the Second Lien Facilities or Second Lien Notes (a “Second Lien Payment Default”); and
- C. the payment is of (1) any amount of principal or capitalized interest in respect of the Topco Liabilities which is not prohibited by any prior ranking financing agreements (in respect of the Senior Secured Liabilities and the Second Lien Liabilities), or any required consents to permit such payment have been obtained, (2) any other amount which is not an amount of principal or capitalized interest (such other amounts including all scheduled interest payments (including, if

applicable, special interest (or liquidated damages))) and default interest on the Topco Liabilities accrued and payable in cash in accordance with the terms of the relevant Topco Finance Document (as at the date of the issue of the same or as amended in accordance with the terms of the Intercreditor Agreement and the other Debt Documents), additional amounts payable as a result of the tax gross up provisions relating to Topco Liabilities and amounts in respect of currency indemnities in any Topco Finance Document, (3) made in pursuance of a debt buyback program approved by the Majority Senior Secured Creditors, Majority Super Senior Creditors and Majority Second Lien Creditors (each as defined below), or (4) amounts due under any syndication strategy letter relating to the Topco Finance Documents;

- (ii) if, notwithstanding that a Topco Payment Stop Notice (as defined below) is outstanding and/or (other than in respect of paragraph (M) below) a Senior Secured Payment Default and/or a Second Lien Payment Default has occurred and is continuing and (if the Topco Borrower is a guarantor or borrower under any prior ranking debt facilities at such time, other than in respect of paragraph (K) below) irrespective of whether any creditors under prior ranking debt facilities have accelerated their debt, the payment is not prohibited to be made at such time by any prior ranking financing agreements (in respect of the Senior Secured Liabilities and the Second Lien Liabilities), or the payment is (without double counting any equivalent applicable basket in any Debt Document, but whether or not permitted by the Debt Documents): (A) of ongoing fees under any original fee letter relating to the Topco Finance Documents; (B) of commercially reasonable advisory and professional fees for restructuring advice and valuations (including legal advice and the advice of other appropriate financial and/or restructuring advisors) and a Topco Agent's (as defined below) fees, costs and expenses not exceeding €1,500,000, but excluding the costs of any litigation against a Senior Secured Creditor or Second Lien Creditor (or their affiliates); (C) of any amounts owed to a Topco Agent; (D) of costs necessary to protect, preserve or enforce security; (E) of any costs, commissions, taxes, premiums, amendment fees (including any original issue discount and other consent and/or waiver fees) and any expenses incurred in respect of (or reasonably incidental to) the Topco Finance Documents (including in relation to any reporting or listing requirements under the Topco Finance Documents); (F) of any other amount not exceeding €2,500,000 in any twelve month period; (G) of any amount of the Topco Liabilities which would have been payable but for the issue of a Topco Payment Stop Notice (which has since expired and no new Topco Payment Stop Notice is outstanding) which has been capitalized and added to the principal amount of the Topco Liabilities or where that amount is outstanding as a result of the accrual of cash interest payable in respect of the Topco Liabilities during such period or any such amount described at (i)(C) above, provided that no such payment may be made if certain events of default have occurred under the Senior Secured Liabilities or Second Lien Liabilities or would occur as a result of making such payment; (H) for as long as an event of default under the Senior Secured Liabilities, Second Lien Liabilities or Topco Group Liabilities which is continuing, all or part of the Topco Liabilities being released or otherwise discharged solely in consideration for the issues of shares in any holding company of the Senior Secured Notes Issuer (a "Debt for Equity Swap") provided that no cash or cash equivalent payment is made in respect of the Topco Liabilities, that it does not result in a Change of Control as defined in any prior ranking finance agreement or Topco Finance Document and that any Liabilities owed by a member of the Senior Secured Group to another member of the Senior Secured Group, to the Subordinated Creditors or to any other holding company of the Senior Secured Notes Issuer that arise as a result of any such Debt for Equity Swap are subordinated to the Senior Secured Liabilities and Second Lien Liabilities pursuant to the Intercreditor Agreement and the Senior Secured Creditors and Second Lien Creditors are granted Transaction Security in respect of any of those Intra Group Liabilities or Subordinated Liabilities owed by any member of the Senior Secured Group; (I) of non-cash interest made by way of capitalizing interest or issuing a non-cash pay instrument which is subordinated on the same terms as the Topco Liabilities; (J) if the payment is funded directly or indirectly with the proceeds of Topco Liabilities incurred under or pursuant to any Topco Finance Documents; (K) if the payment is made by the Topco Borrower in respect of its obligations under the Topco Finance Documents; and such payment is not directly or indirectly sourced from a member of the Senior Secured Group or such payment is funded from proceeds received by the Topco Borrower from the Senior Secured Group without breaching the terms of the Debt Documents unless the Topco Borrower is a guarantor or borrower of any prior ranking debt facilities at such time and any such prior ranking debt facility has been accelerated or an Insolvency Event has occurred; (L) if the payment is of a principal amount of the Topco Liabilities and made in accordance with a provision in a Topco Finance Document relating to prepayment upon illegality or in relation to the prepayment of a



single lender in the event of a tax gross up, increased costs or other indemnity becoming payable; and (M) if no Senior Secured Payment Default or Second Lien Payment Default has occurred and is continuing the payment is a payment of principal, interest or any other amounts made on or after the final maturity date of the relevant Topco Liabilities (provided that such maturity date is no earlier than that contained in the original form of the relevant Topco Finance Document as of the date of first issuance or borrowing (as the case may be)) of the applicable Topco Liabilities; or

- (iii) if the requisite Senior Secured Creditors, Super Senior Creditors and Second Lien Creditors give prior consent to that payment being made.

On or after the Priority Discharge Date, the Debtors, the Topco Borrowers and the Third-party Security Providers may make payments in respect of the Topco Group Liabilities in accordance with the Topco Finance Documents and the Topco Proceeds Loan Agreement (as applicable).

#### *Topco Liabilities Payment Block Provisions*

A Topco Payment Stop Notice (as defined below) is outstanding from the date on which, following the occurrence of an event of default under any Senior Secured Liabilities (a “Senior Secured Event of Default”) or an event of default under the Second Lien Liabilities (a “Second Lien Event of Default”), the Security Agent (acting on the instructions of the requisite Super Senior Creditors, Senior Secured Creditors or Second Lien Creditors gave the instructions for the relevant stop notice to be delivered) (a “Topco Payment Stop Notice”) to the agent under any Topco Facility (the “Topco Agent”) and the trustee under any Topco Notes (the “Topco Notes Trustee”) advising that the Senior Secured Event of Default or Second Lien Event of Default is continuing and suspending payments by the Senior Secured Group of the Topco Liabilities, until the first to occur of:

- (i) the date falling 179 days after delivery of that Topco Payment Stop Notice;
- (ii) the date on which a default occurs for failure to pay principal at the original scheduled maturity of the relevant Topco Liabilities;
- (iii) if a Topco Standstill Period (as defined below) commences after delivery of that Topco Payment Stop Notice, the date on which such standstill period expires;
- (iv) the date on which the relevant Senior Secured Event of Default or Second Lien Event of Default has been remedied or waived;
- (v) the date on which the Security Agent (acting on the instructions of whichever of the Super Senior Creditors, Senior Secured Creditors or Second Lien Creditors gave the instructions for the relevant stop notice to be delivered) delivers a notice to the Topco Borrower, the Topco Agent and the Topco Notes Trustee cancelling the payment stop notice;
- (vi) the Priority Discharge Date; and
- (vii) the date on which the Topco Creditors take any enforcement action that is permitted under the Intercreditor Agreement (see “—Enforcement Regime—Permitted Topco Enforcement” below).

No Topco Payment Stop Notice may be delivered by the Security Agent in reliance on a Senior Secured Event of Default or a Second Lien Event of Default more than 45 days after the occurrence of the relevant event of default. No more than one Topco Payment Stop Notice may be served (i) with respect to the same event or set of circumstances or (ii) in any period of 360 days.

Any failure to make a payment due in respect of the Topco Group Liabilities as a result of the issue of a Topco Payment Stop Notice or the occurrence of a Senior Secured Payment Default or Second Lien Payment Default shall not prevent (i) the occurrence of an event of default as a consequence of that failure to make a payment in relation to the relevant Topco Group Liabilities or (ii) the issue of an enforcement notice in respect of an event of default under the finance documents documenting any Topco Group Liabilities (a “Topco Enforcement Notice”) on behalf of the Topco Creditors.

#### *Payment Obligations and Capitalization of Interest Continue*

Nothing in the Second Lien or Topco payment block provisions will release any Debtor from the liability to make any payment (including of default interest, which shall continue to accrue) under the applicable Debt Documents even if its obligation to make such payment is restricted at any time. The accrual and capitalization of interest (if any) in accordance with the applicable Debt Documents shall continue notwithstanding the issue of a payment stop notice.



### *Cure of Payment Stop*

If:

- (i) at any time following the issue of a Topco Payment Stop Notice or the occurrence of a Senior Secured Payment Default or Second Lien Payment Default, that Topco Payment Stop Notice ceases to be outstanding and/or (as the case may be) the Senior Secured Payment Default or Second Lien Payment Default ceases to be continuing; and
- (ii) the relevant Debtor or Topco Borrower then promptly pays to the Topco Creditors or any party that has acceded to the Intercreditor Agreement as a creditor under a Topco Proceeds Loan (the “Topco Investors”) (in respect of the Topco Proceeds Loan Liabilities only) an amount equal to any payments which had accrued under the Topco Finance Documents or the Topco Proceeds Loan Agreement (as applicable) and which would have been Permitted Topco Payments but for that Topco Payment Stop Notice or Senior Secured Payment Default or Second Lien Payment Default (as the case may be),

then any event of default which may have occurred under a Topco Finance Document or Topco Proceeds Loan Agreement and any Topco Enforcement Notice which may have been issued as a result of that suspension of payments shall be deemed waived without any further action being required on part of the Topco Creditors or relevant Topco Investor (in respect of the Topco Proceeds Loan Liabilities only).

### *Turnover*

Subject to certain exceptions, the Intercreditor Agreement provides that if, at any time prior to the latest to occur of the Super Senior Discharge Date, the Senior Secured Discharge Date, the Second Lien Discharge Date and the first date on which all of the Topco Liabilities have been fully discharged (the “Topco Discharge Date”) (the “Final Discharge Date”) any creditor (other than a Senior Secured Creditor on or after the Designation Date) receives or recovers from any Debtor, member of the Senior Secured Group or Third-party Security Provider:

- (i) any payment or distribution of, or on account of or in relation to, any of the liabilities owed to the creditors under the Debt Documents other than any payment or distribution which is either (x) not prohibited under the Intercreditor Agreement or (y) made in accordance with the provisions set out below under “—*Application of Proceeds*”;
- (ii) any amount by way of set-off (pursuant to the applicable terms of the Intercreditor Agreement) which does not give effect to a payment permitted under the Intercreditor Agreement;
- (iii) any amount:
  - A. on account of, or in relation to, any of the liabilities owed to the creditors under the Debt Documents (I) after the occurrence of an Acceleration Event (as defined in the Intercreditor Agreement) or the enforcement of any Transaction Security as a result of such an Acceleration Event (as defined in the Intercreditor Agreement) (a “Distress Event”), or (II) as a result of any other litigation or proceedings against a Debtor, member of the Senior Secured Group or any Third-party Security Provider (other than after the occurrence of an Insolvency Event); or
  - B. by way of set-off in respect of any of the liabilities owed to it after the occurrence of a Distress Event,

other than, in each case, any amount received or recovered in accordance with the provisions set out below under “—*Application of Proceeds*”; and in the case of Intra Group Liabilities, any amount received or recovered in accordance with the provisions relating to Intra Group Liabilities in the Intercreditor Agreement (to the extent permitted to be received or recovered notwithstanding that an Acceleration Event is continuing);

- (i) the proceeds of any enforcement of any of the Transaction Security except in accordance with the provisions set out below under “—*Application of Proceeds*”; or
- (ii) any distribution in cash or in kind or payment of, or on account of or in relation to, any of the liabilities owed by any Debtor, any member of the Senior Secured Group or Third-party Security Provider which is not in accordance with the provisions set out below under “—*Application of Proceeds*” and which is made as a result of, or after, the occurrence of an Insolvency Event (as defined below) in respect of that Debtor, member of the Senior Secured Group or Third-party Security Provider,

that creditor will:

- (i) in relation to receipts and recoveries not received or recovered by way of set-off (x) hold an amount of that receipt or recovery equal to the relevant liabilities (or if less, the amount received or recovered) on trust for (or otherwise on behalf and for the account of) the Security Agent and promptly pay or distribute that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement, and (y) promptly pay or distribute an amount equal to the amount (if any) by which the receipt or recovery exceeds the relevant liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
- (ii) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

A turnover mechanism on substantially the same terms applies in the event that, at any time on or after the Designation Date but prior to the Final Discharge Date, any Senior Secured Creditor receives or recovers from any Debtor, any member of the Senior Secured Group or Third-party Security Provider (x) any proceeds from the enforcement of security or from a Distressed Disposal (as defined below) or following a Distress Event, any proceeds arising from any of the charged property (collectively, “Enforcement Proceeds”) or (y) any other amounts which should otherwise be received or recovered by the Security Agent except in accordance with the provisions set out below under “—*Application of Proceeds*.”

#### ***Effect of Insolvency Event***

“Insolvency Event” is defined as, in relation to any Obligor, Material Subsidiary (each as defined in the Senior Secured Facilities Agreement) or Third-party Security Provider, (a) the passing of any resolution or making of an order for insolvency, bankruptcy, winding up, dissolution, administration or reorganization, (b) a composition, compromise, assignment or arrangement with any class of creditors generally (other than any Secured Party) in connection with or as a result of any financial difficulty on the part of that Obligor, Material Subsidiary or Third-party Security Provider, (c) a moratorium is declared in relation to any of its indebtedness, (d) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of it or any of its assets, or (e) any analogous procedure or step is taken in any jurisdiction, other than (in each case), (i) frivolous or vexatious proceedings and which, if capable of remedy, are discharged, stayed or dismissed within 20 business days of commencement or, if earlier, the date on which it is advertised (or such other period agreed between the Senior Secured Notes Issuer and the Instructing Group (as defined below)), (ii) (in the case of any application to appoint and administrator or commence, proceedings) which the Security Agent is satisfied (acting on the instructions of the Instructing Group) will be withdrawn before it is heard or will be unsuccessful and (iii) as permitted under any Senior Secured Credit Facility Agreement or in any Permitted Senior Secured Facilities Agreement, Permitted Super Senior Secured Facilities Agreement or a Second Lien Facility Agreement, or otherwise not constituting a default.

The Intercreditor Agreement provides that, after the occurrence of an Insolvency Event, any party to the Intercreditor Agreement entitled to receive a distribution out of the assets of an Obligor, Material Subsidiary or Third-party Security Provider (in the case of a Senior Secured Creditor on or after the Designation Date, only to the extent such amounts constitute proceeds of enforcement) shall direct the person responsible for the distribution to pay that distribution to the Security Agent until the liabilities owing to the Secured Parties have been paid in full. The Security Agent shall apply all such distributions paid to it in accordance with the provisions set out under “—*Application of Proceeds*” below.

To the extent that any member of the Senior Secured Group or Third-party Security Provider’s liabilities to creditors are, with certain exceptions, discharged by way of set-off (mandatory or otherwise and in the case of a Senior Secured Creditor on or after the Designation Date, only to the extent such amounts constitute Enforcement Proceeds) after the occurrence of an Insolvency Event, any creditor benefiting from such set-off shall pay an amount equal to the amount of the liabilities owed to it which are discharged by that set-off to the Security Agent for application in accordance with the provisions set out under “—*Application of Proceeds*” below.

If the Security Agent or any other Secured Party receives a distribution in a form other than in cash in respect of any liabilities, the liabilities will not be reduced by that distribution until and except to the extent that the realization proceeds are actually applied towards such liabilities.

Subject to certain netting and set-off rights under ancillary or cash management facilities, each creditor irrevocably authorizes the Security Agent to take Enforcement Action (as defined below), make demands, collect and receive distributions, file claims and take other actions necessary to make recovery after the occurrence of an Insolvency Event in relation to an Obligor, member of the Senior Secured Group or Third-party Security Provider. The creditors agree to do all things the Security Agent reasonably requests in order to give effect to these provisions.

### ***Security Enforcement Regime***

#### ***Enforcement of Security***

The Intercreditor Agreement provides that the Security Agent may refrain from enforcing the Transaction Security or the Topco Independent Transaction Security (as applicable) unless instructed otherwise by an Instructing Group, Majority Second Lien Creditors or Majority Topco Creditors (as applicable) otherwise as specified in the provisions described below.

An “Instructing Group” means:

- (a) if the Designation Date has not occurred:
  - (i) prior to the Senior Secured Discharge Date, the Majority Senior Secured Creditors (as defined below);
  - (ii) on or after the Senior Secured Discharge Date but before the Priority Discharge Date, the Majority Second Lien Creditors; and
  - (iii) on or after the Priority Discharge Date but before the Topco Discharge Date, the Majority Topco Creditors (as defined below); and
- (b) at any time on or after the occurrence of the Designation Date and:
  - (i) prior to the later of the Senior Secured Discharge Date and the first date on which the Super Senior Liabilities have been fully and finally discharged (the “Super Senior Discharge Date”), Senior Secured Creditors (other than the Super Senior Creditors) representing more than 50% of the Senior Secured Liabilities (other than the Super Senior Liabilities) (the “Majority Senior Secured Creditors”), and Super Senior Creditors representing more than 50% of the Super Senior Liabilities (the “Majority Super Senior Creditors”) save that, in each case for instructions relating to enforcement, it shall mean the group of Secured Creditors entitled to give instructions in accordance with the enforcement regime described under “—*Enforcement of Transaction Security Prior to the Designation Date*” and “—*Enforcement of Transaction Security on or After the Designation Date*” below;
  - (ii) on or after the later of the Senior Secured Discharge Date and the Super Senior Discharge Date but before the Priority Discharge Date, Second Lien Creditors representing more than 50% of the Second Lien Liabilities (the “Majority Second Lien Creditors”); and
  - (iii) on or after the Priority Discharge Date but before the Topco Discharge Date, Topco Creditors representing more than 50% of the Topco Liabilities (the “Majority Topco Creditors”).

#### ***Enforcement of Transaction Security Prior to the Designation Date***

Prior to the Designation Date, the Security Agent may refrain from enforcing the Transaction Security unless instructed otherwise by (i) the Instructing Group, (ii) if, prior to the Senior Secured Discharge Date, the Instructing Group has (A) given no instructions or has instructed the Security Agent neither to enforce or cease enforcing and (B) not required any Debtor or Third-party Security Provider to make a Distressed Disposal (as defined below), an agent or trustee under the Second Lien Liabilities (acting on the instructions of the Majority Second Lien Creditors) where the rights of the Second Lien Creditors to enforce have arisen under the Intercreditor Agreement, or (iii) if, prior to the Priority Discharge Date, the Instructing Group (or Majority Second Lien Creditors as applicable) have (A) given no instructions or have instructed the Security Agent neither to enforce or cease enforcing and (B) not required any Debtor or Third-party Security Provider to make a Distressed Disposal, a Topco Agent or the Topco Notes Trustee (acting on the instructions of the Majority Topco Creditors) where the rights of the Topco Creditors to enforce have arisen under the Intercreditor Agreement.

Subject to the Transaction Security having become enforceable in accordance with its terms, the Instructing Group or any other persons entitled to give instructions in accordance with the preceding paragraph may give or refrain from giving instructions to the Security Agent to enforce, or refrain from enforcing, the Transaction Security as they see fit. Notwithstanding the above paragraphs, if at any time the agents or representatives of the Second Lien Creditors or Topco Creditors then entitled to give the Security Agent instructions to enforce the Transaction Security either gives such instruction or indicates any intention to give such instruction, then the Instructing Group may give instructions to the Security Agent to enforce the Transaction Security as the Instructing Group sees fit and the Security Agent shall act on such instructions received from the Instructing Group.

Unless (i) the Transaction Security has become enforceable as a result of an Insolvency Event or (ii) the Instructing Group or any agent of the creditors represented in the Instructing Group determines in good faith that to do so could reasonably be expected to have a material adverse effect on the Security Agent's ability to enforce the Transaction Security or the realization proceeds of any such enforcement, before giving any such instructions to enforce the Transaction Security or take any other enforcement action the agent(s) of the creditors represented by an Instructing Group will be required to consult with each other agent (provided that any agent in respect of Topco Liabilities need only be consulted if such enforcement relates to Topco Shared Security) for a period of up to ten business days or take any Enforcement Action (the "Consultation Period") and the Instructing Group will only be entitled to give the enforcement instructions described above or take any Enforcement Action after the expiry of such Consultation Period.

#### *Enforcement of Transaction Security on or After the Designation Date*

On or after the Designation Date, the Security Agent may refrain from enforcing the Transaction Security unless instructed otherwise in accordance with the provisions described in this paragraph. If the Transaction Security has become enforceable, if either the Majority Super Senior Creditors or the Majority Senior Secured Creditors wish to issue enforcement instructions they shall deliver a copy of those instructions (an "Initial Enforcement Notice") to the Security Agent and to the other agents, trustees and hedge counterparties.

The Security Agent will act in accordance with any instructions (provided they are consistent with the Enforcement Principles (as defined below)) received from (i) the Majority Senior Secured Creditors, (ii) if the Majority Senior Secured Creditors have not made a determination as to the method of enforcement they wish to instruct the Security Agent to pursue within three months of the Initial Enforcement Notice or the Super Senior Discharge Date has not occurred within six months of the Initial Enforcement Notice, the Majority Super Senior Creditors, until the Super Senior Discharge Date has occurred, (iii) if an Insolvency Event (other than an Insolvency Event directly caused by enforcement action taken at the request of a Super Senior Creditor) is continuing, the Super Senior Creditors, until the Super Senior Discharge Date has occurred, (iv) if the Majority Senior Secured Creditors have not made a determination as to the method of enforcement they wish to instruct the Security Agent to pursue and the Majority Super Senior Creditors determine in good faith that a delay could reasonably be expected to have a material adverse effect on the Security Agent's ability to enforce the Transaction Security or on the realization of proceeds and the Majority Super Senior Creditors deliver instructions before the Security Agent has received any instructions from the Majority Senior Secured Creditors, the Majority Super Senior Creditors, until the Super Senior Discharge Date has occurred, (v) if, prior to the later of the Senior Secured Discharge Date and the Super Senior Discharge Date, the Majority Senior Secured Creditors or the Majority Super Senior Creditors (as applicable) have not given instructions or they have instructed the Security Agent (A) not to enforce or cease enforcing or (B) required any Debtor or Third-party Security Provider to make a Distressed Disposal, any agent or trustee in relation to the Second Lien Liabilities (the "Second Lien Agent") (acting on the instructions of the Majority Second Lien Creditors) where the rights of the Second Lien Creditors to enforce have arisen under the Intercreditor Agreement, or (vi) if, prior to the Priority Discharge Date, the Majority Senior Secured Creditors or the Majority Super Senior Creditors or the Majority Second Lien Creditors (as applicable) have not given instructions or they have instructed the Security Agent (A) not to enforce or cease enforcing or (B) required any Debtor or Third-party Security Provider to make a Distressed Disposal an agent or trustee under the Topco Finance Documents (acting on the instructions of the Majority Topco Creditors).

Notwithstanding the preceding paragraph, if at any time the agents or representatives of the Second Lien Creditors or Topco Creditors then entitled to give the Security Agent instructions either give such instruction or indicate any intention to give such instruction, then the Majority Senior Secured Creditors or Majority Super Senior Creditors to the extent that such group is entitled to give enforcement instructions

as described in the paragraph above may give instructions to the Security Agent to enforce the Transaction Security as they see fit and the Security Agent shall act on such instructions.

“Enforcement Principles” means certain requirements as to the manner of enforcement, including that (i) to the extent consistent with a prompt and expeditious realization of value, the method of enforcement chosen should maximize the value realized from such enforcement, (ii) certain proceeds must be received in cash and (iii) enforcement in relation to assets over €5,000,000 or shares if not carried out by way of a public auction or other competitive sales process, shall (if the Security Agent is requested to do so by the Majority Super Senior Creditors or Majority Senior Secured Creditors) benefit from a fairness opinion from an investment bank, firm of accountants or third-party financial adviser.

#### *Enforcement—Topco Independent Transaction Security*

Subject to the Topco Independent Transaction Security having become enforceable in accordance with its terms, an agent or trustee under the Topco Finance Documents (acting on the instructions of the Majority Topco Creditors) may give or refrain giving, instructions to the Security Agent to enforce or refrain from enforcing the Topco Independent Transaction Security as they see fit.

#### *Manner of Enforcement*

If the Transaction Security or Topco Independent Transaction Security is being enforced in accordance with any of the above paragraphs, the Security Agent shall enforce the relevant Transaction Security or Topco Independent Transaction Security in such manner (including, without limitation, the selection of any administrator of any Debtor or Third-party Security Provider to be appointed by the Security Agent) as any persons entitled at any time under the above provisions shall instruct it or, in the absence of any such instructions, as the Security Agent sees fit (which may include taking no action).

No Secured Party shall have any independent power to enforce, or to have recourse to enforce, any Transaction Security or Topco Independent Transaction Security or to exercise any rights or powers arising under the security documents except through the Security Agent.

#### *Security Held by Other Creditors*

If any Transaction Security or Topco Independent Transaction Security is held by a creditor other than the Security Agent, then creditors may only enforce that Transaction Security or Topco Independent Transaction Security in accordance with instructions given by instructing creditors in accordance with the paragraphs above.

#### *Enforcement Regime*

##### *Restrictions on Enforcement by Second Lien Creditors*

Certain of the features set out below with respect to Topco Creditors may apply to the Second Lien Creditors, with appropriate modifications for the relative position in the capital structure including any standstill period on Second Lien Creditors taking an Enforcement Action will be for a period of not less than: (i) 90 days in the case of a failure to make a payment of an amount of principal, interest or fees representing the Second Lien Liabilities; (ii) 120 days in case of an event of default under any financial maintenance covenant in any Second Lien Facility Agreement substantially equivalent to that contained in the Senior Secured Credit Facility Agreement; and (iii) 150 days in the case of any other Second Lien Event of Default.

##### *Restrictions on Enforcement by Topco Creditors*

Until the Priority Discharge Date, except with the prior consent of or as required by an Instructing Group, (i) no Topco Creditor or Topco Investor shall direct the Security Agent to enforce, or otherwise require the enforcement of any Transaction Security (including the crystallization of any floating charge forming part of the Transaction Security), (ii) no Topco Creditor nor Topco Investor shall take or require the taking of any Enforcement Action (as defined below) against any member of the Senior Secured Group or Third-party Security Provider (other than in each case (and to the extent not restricted by (i) above and (iii) below) against a Topco Borrower) in relation to the Topco Group Liabilities and (iii) no Topco Creditor nor Topco Investor nor Topco Borrower shall take or require the taking of any Enforcement Action (as defined below) in relation to Topco Proceeds Loan Liabilities, except in the case of each of (i) through (iii) as set out under “—Permitted Topco Enforcement” below.



Other than as restricted by (i) and (iii) in the paragraph above, any Topco Creditor may at any time take any Enforcement Action (as defined below) against any Topco Investor, Topco Borrower or any Topco Guarantor that is not a member of the Senior Secured Group, in each case in accordance with the terms of the Topco Finance Documents.

“Enforcement Action” is defined as:

- (i) (A) in relation to any liabilities (other than Unsecured Liabilities) the acceleration, putting on demand, making of a demand, requiring a member of the Topco Group or Third-party Security Provider to acquire such liabilities (subject to certain exceptions), exercising of rights of set-off (other than certain netting under hedging agreements or as otherwise permitted under the Debt Documents) or (B) suing or commencing proceedings in relation to such liabilities;
- (ii) premature termination or close out of a hedging agreement, save to the extent permitted by the Intercreditor Agreement;
- (iii) the taking of steps to enforce or require the enforcement of the Transaction Security or, as the case may be, Topco Independent Transaction Security (including the crystallization of any floating charge) as a result of an Acceleration Event (as defined in the Intercreditor Agreement);
- (iv) entering into any composition, compromise, assignment or similar arrangement with any Third-party Security Provider or a member of the Topco Group which owes any liabilities or has given security or guarantees in respect of liabilities owed to a creditor under the Intercreditor Agreement (other than any action permitted under the Intercreditor Agreement or any debt buy backs pursuant to open market debt repurchases, tender offers or exchange offers not undertaken as part of an announced restructuring or turnaround plan or while a default was outstanding under the relevant finance documents); or
- (v) petitioning, applying, voting for or taking steps (including the appointment of any liquidator, receiver, administrator or similar officer) in relation to the winding up, dissolution, administration or reorganization of any Third-party Security Provider or a member of the Topco Group which owes any liabilities or has given security or guarantees in respect of liabilities owed to a creditor under the Intercreditor Agreement or any of such Third-party Security Provider or member of the Topco Group’s assets or any suspension of payments or moratorium of any indebtedness of any such Third-party Security Provider or member of the Topco Group, or any analogous procedure or step in any jurisdiction,

except that the following shall not constitute Enforcement Action, (A) suing, commencing proceedings or taking any action referred to in paragraph (i)(B) and (v) where necessary to preserve a claim, (B) discussions between or proposals made by the Priority Secured Parties with respect to enforcement of the Transaction Security in accordance with the Intercreditor Agreement, (C) bringing proceedings in connection with a securities violation, securities or listing regulations or common law fraud or to restrain any breach of the Debt Documents or for specific performance with no claims for damages, (D) proceedings brought by a Secured Party to obtain injunctive relief, specific performance with no claim for damages or to request judicial interpretation in relation to a Debt Document to which it is party with no claim for damages, (E) demands made by Intra Group Lenders or Subordinated Creditors to the extent they relate to payments permitted under the Intercreditor Agreement or the release of the liabilities owed to such creditors in return for the issue of shares in the relevant member of the Senior Secured Group provided that the ownership interest of the member of the Senior Secured Group is not diluted and any relevant shares remain subject to the same Transaction Security as existed prior to the issue, and (F) proceedings brought by an ancillary lender, a lender of Cash Management Facility Liabilities (a “Cash Management Facility Lender”), hedge counterparty, issuing bank, or agent or trustee in respect of the Second Lien Liabilities or Topco Liabilities to obtain injunctive relief, specific performance with no claim for damages or to request judicial interpretation in relation to a Debt Document to which it is party with no claim for damages or in connection with any securities violation, securities or listing regulations or common law fraud.

### *Permitted Topco Enforcement*

The restrictions set out above under “—*Restrictions on Enforcement by Topco Creditors*” will not apply in respect of the Topco Group Liabilities, Topco Proceeds Loan Liabilities, or any Transaction Security securing the Topco Group Liabilities, if:

- (i) an event of default under a Topco Finance Document or a Topco Proceeds Loan Agreement (the “Relevant Topco Default”) is continuing;
- (ii) all agents or trustees in respect of the Senior Lender Liabilities, Senior Secured Notes Liabilities, and Second Lien Liabilities have received a notice of the Relevant Topco Default specifying the event or circumstance in relation to the Relevant Topco Default from the Topco Agent, the Topco Notes Trustee or the Topco Borrower in relation to the relevant Topco Group Liabilities;
- (iii) a Topco Standstill Period (as defined below) has elapsed; and
- (iv) the Relevant Topco Default is continuing at the end of that Topco Standstill Period.

Promptly upon becoming aware of an event of default under a Topco Finance Document, a Topco Notes Trustee, Topco Agent or Topco Investor (as the case may be) may give a Topco Enforcement Notice notifying any agent under a Permitted Senior Secured Facilities Agreement (the “Senior Agent”), senior secured notes trustee, the Second Lien Agent and any second lien notes trustee of the existence of such event of default.

“Topco Standstill Period” means the period beginning on the date (the “Topco Standstill Start Date”) a Topco Enforcement Notice is served in respect of such a Relevant Topco Default and ending on the earliest to occur of:

- (i) the date falling 179 days after the Topco Standstill Start Date (the “Topco Standstill Period”);
- (ii) the date the Priority Secured Parties take any Enforcement Action in relation to a particular Debtor or Third-party Security Provider, provided that:
  - A. if a Topco Standstill Period ends pursuant to this paragraph (ii), the Topco Creditors or a Topco Investor (in respect of the Topco Proceeds Loan Liabilities only) may only take the same Enforcement Action in relation to a Topco Guarantor as the Enforcement Action taken by the Priority Secured Parties against such Topco Guarantor and not against any other member of the Senior Secured Group or Third-party Security Provider; and
  - B. Enforcement Action for the purpose of this paragraph shall not include action taken to preserve or protect any security as opposed to realize it;
- (iii) the date of an Insolvency Event (as defined above) in relation to a particular Topco Guarantor against whom Enforcement Action is to be taken; and
- (iv) the expiry of any other Topco Standstill Period outstanding at the date such first mentioned Topco Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy).

The Topco Creditors or Topco Investor (in respect of the Topco Proceeds Loan Liabilities only) may take Enforcement Action under the provisions described in this section (Permitted Topco Enforcement) in relation to a Relevant Topco Default even if, at the end of any relevant Topco Standstill Period or at any later time, a further Topco Standstill Period has begun as a result of any other event of default in respect of the Topco Liabilities.

### *Option to Purchase: Topco Creditors*

Following acceleration or the enforcement of Transaction Security upon acceleration under any Senior Secured Creditor Liabilities, Second Lien Liabilities or Topco Liabilities, Topco Creditors may elect to purchase the Senior Lender Liabilities, Super Senior Lender Liabilities, Senior Secured Notes Liabilities, Cash Management Facility Liabilities, Second Lien Lender Liabilities and Second Lien Notes Liabilities for the amount that would have been required to prepay or redeem such liabilities on such date plus certain costs and expenses. Topco Creditors must also elect for the counterparties to hedging obligations to transfer their hedging obligations to holders in exchange (subject to specified conditions) for the amount that would have been payable under such hedging obligations had they been terminated on such date plus certain costs and expenses in connection with any such purchase.

### *Non-Distressed Disposals*

The Security Agent (on behalf of itself and the other Secured Parties) and each other person party to a Transaction Security document or a Topco Independent Transaction Security document agrees that it shall (and is irrevocably authorized, instructed and obliged to do so without further consent, agreement or instruction from any creditor, other Secured Party or Debtor) promptly following receipt of a written request from the Senior Secured Notes Issuer:

- (i) release (or procure the release) from the Transaction Security or Topco Independent Transaction Security:
  - A. any security (and/or other claim relating to a Debt Document) over any asset which the Senior Secured Notes Issuer has confirmed is the subject of:
    - 1. a disposal not prohibited under the Finance Documents or where any applicable release and/or consent has been obtained under the applicable Finance Document including a disposal to a member of the Senior Secured Group but without prejudice to any obligation of any member of the Senior Secured Group in a Finance Document to provide replacement security; and
    - 2. any other transaction not prohibited by the Finance Documents pursuant to which that asset will cease to be held or owned by a member of the Senior Secured Group; and
- in each case where such disposal is not a Distressed Disposal (as defined below) (in each case, a “Non-Distressed Disposal”);
  - A. any security (and/or other claim relating to a Debt Document) over any document or other agreement requested in order for any member of the Senior Secured Group to the extent that the Senior Secured Notes Issuer has confirmed that such action is not prohibited by any Finance Document to effect any amendment or waiver or otherwise exercise any rights, comply with any obligation or take any action in relation to such document or agreement;
  - B. any security (and/or other claim relating to a Debt Document) over any asset of any member of the Senior Secured Group which has ceased or will cease to be a Debtor or guarantor to the extent that the Senior Secured Notes Issuer has confirmed that such ceasing to be a Debtor or guarantor in accordance with the terms of each Finance Document or the Agreed Security Principles (as defined in the Senior Secured Facilities Agreement); and
  - C. any security (and/or other claim relating to a Debt Document) over any other asset to the extent that the Senior Secured Notes Issuer has confirmed that such security is not required to be given or such release in accordance with the terms of any Finance Document or the Agreed Security Principles (as defined in the Senior Secured Facilities Agreement); and
- (ii) in the case of a disposal of share or ownership interest in a Debtor, other member of the Senior Secured Group or any holding company of any Debtor or any other transaction pursuant to which a Debtor, other member of the Senior Secured Group or any holding company of any Debtor will cease to be a member of the Topco Group or a Debtor, release or procure the release of that Debtor or other member of the Senior Secured Group and its subsidiaries from all present and future liabilities under the Secured Debt Documents and the respective assets of such Debtor and its subsidiaries from the Transaction Security or Topco Independent Transaction Security and the Secured Debt Documents (including any claim relating to a Debt Document).

When making any request for a release pursuant to paragraphs (i)(A) or (i)(B) above, the Senior Secured Notes Issuer shall confirm in writing to the Security Agent, that the relevant disposal or other action is not prohibited as at the date of completion of such release or, at the option of the Senior Secured Notes Issuer, on the date that the definitive agreement for such disposal or similar transaction is entered into.

When making any request for a release pursuant to paragraph (i)(C) or (i)(D) above, the Senior Secured Notes Issuer shall confirm in writing to the Security Agent, that such security is not required to be given or the relevant release or cessation is otherwise in accordance with the terms of the Finance Documents or the Agreed Security Principles (as defined in the Senior Secured Facilities Agreement).

In the case of a disposal of shares or other ownership interests in a Debtor, member of the Senior Secured Group or holding company of any Debtor or any other transaction pursuant to which a Debtor, member of the Senior Secured Group or holding company of any Debtor will cease to be a member of Topco Group or

a Debtor, to the extent the Senior Secured Notes Issuer has confirmed to the Security Agent that it is not prohibited by the Finance Documents, if such member of the Topco Group or a Debtor is a borrower, issuer or primary debtor under any Debt Document, such person shall have the right to voluntarily prepay all Liabilities outstanding under any Debt Document.

### *Distressed Disposals*

“Distressed Disposal” means a disposal of an asset or shares of, or other financial securities issued by a member of the Senior Secured Group or, in the case of a Third-party Security Provider, any Transaction Security which is being effected (a) at the request of an Instructing Group in circumstances where the Transaction Security has become enforceable as a result of an Acceleration Event (as defined in the Intercreditor Agreement), (b) by enforcement of the Transaction Security as a result of an Acceleration Event (as defined in the Intercreditor Agreement), or (c) after the occurrence of a Distress Event, by a Debtor or Third-party Security Provider to a person or persons which is not a member of the Topco Group.

If a Distressed Disposal of any asset is being effected, the Security Agent is irrevocably authorized (at the cost of the relevant Debtor, Third-party Security Provider and the Senior Secured Notes Issuer and without any consent, sanction, authority or further confirmation from any creditor under the Intercreditor Agreement, Third-party Security Provider or Debtor):

- (i) to release the Transaction Security or any other claim over that asset, enter into any release of that Transaction Security or claim and issue any letters of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be necessary or desirable;
- (ii) if the asset which is disposed of consists of shares in the capital of a Debtor to release (A) that Debtor and any subsidiary of that Debtor from all or any part of its borrowing, guarantee or other liabilities; (B) any Transaction Security granted by that Debtor or any subsidiary of that Debtor over any of its assets (and each Debtor and Third-party Security Provider which transfers title of or assigned any of its assets located in Germany under any document governing Transaction Security (or at the time of its accession) will accept any re transfer or re assignment of that asset by the Security Agent and will undertake to procure the acceptance of such re transfer or re assignment by its subsidiaries), and (C) any other claim of an Intra Group Lender, a Topco Investor, Subordinated Creditor or another Debtor over that Debtor’s assets or over the assets of any subsidiary of that Debtor, on behalf of the relevant creditors and Debtors;
- (iii) if the asset which is disposed of consists of shares in the capital of any holding company of a Debtor to release (A) that holding company and any subsidiary of that holding company from all or any part of its borrowing, guarantee or other liabilities, (B) any Transaction Security granted by that holding company or any subsidiary of that holding company over any of its assets (and each Debtor and Third-party Security Provider which transfers title of or assigned any of its assets located in Germany under any document governing Transaction Security (or at the time of its accession) will accept any re transfer or re assignment of that asset by the Security Agent and will undertake to procure the acceptance of such re transfer or re assignment by its subsidiaries) and (C) any other claim of an Intra Group Lender, a Topco Investor, Subordinated Creditor or a Debtor over that holding company’s assets or over the assets of any subsidiary of that Debtor, on behalf of the relevant creditors and Debtors;
- (iv) if the asset which is disposed of consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to dispose of all or any part of the liabilities owed by such Debtor or holding company or any of their subsidiaries to creditors or other Debtors:
  - A. if the Security Agent (acting in accordance with the Intercreditor Agreement) does not intend that any transferee of those liabilities (the “Transferee”) will be treated as a Secured Party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of all or part of those liabilities, provided that, notwithstanding any other provision of any Debt Document, the Transferee shall not be treated as a Secured Creditor or Secured Party for the purposes of the Intercreditor Agreement; and
  - B. if the Security Agent (acting in accordance with the Intercreditor Agreement) does intend that any Transferee will be treated as a Secured Party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of all (and not part only) of the liabilities owed to the Secured Parties and all or part of any other liabilities,

on behalf of, in each case, the relevant creditors, Third-party Security Providers and Debtors;

- (v) if the asset which is disposed of consists of shares in the capital of a Debtor or the holding company of a Debtor (the “Disposed Entity”) and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to transfer to another Debtor (the “Receiving Entity”) all or any part of the Disposed Entity’s obligations or any obligations of a subsidiary of that Disposed Entity in respect of the Intra Group Liabilities or liabilities owed to any Debtor, to execute and deliver or enter into any agreement to:
  - A. transfer all or part of the obligations in respect of those Intra Group Liabilities or liabilities to any Debtor on behalf of the relevant Intra Group Lenders and Debtors to which those obligations are owed and on behalf of the Debtors which owe those obligations; and
  - B. (provided the Receiving Entity is a holding company of the Disposed Entity which is also a Guarantor of the Senior Secured Liabilities, the Second Lien Liabilities or the Topco Liabilities) to accept the transfer of all or part of the obligations in respect of those Intra Group Liabilities, liabilities owed to Debtors on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those Intra Group Liabilities or liabilities owed to Debtors are to be transferred.

The net proceeds of each Distressed Disposal (and the net proceeds of any disposal of liabilities as described above) shall be paid to the Security Agent for application in accordance with the provisions set out under “—*Application of Proceeds*” below as if those proceeds were the proceeds of an enforcement of the Transaction Security and, to the extent that any disposal of liabilities has occurred, as if that disposal of liabilities had not occurred.

In the case of a Distressed Disposal (or a disposal of liabilities) effected by, or at the request of, the Security Agent, the Security Agent shall take reasonable care to obtain a fair market price in the prevailing market conditions (although the Security Agent shall not have any obligation to postpone any such Distressed Disposal or disposal of liabilities in order to achieve a higher price).

If a Distressed Disposal is being effected at a time when the Majority Second Lien Creditors are entitled to give and have given instructions in accordance with the Intercreditor Agreement, the Security Agent is not authorized to release any Debtor, subsidiary or holding company from any borrowing liabilities or guarantee liabilities owed to any Senior Secured Creditor unless those borrowing liabilities or guarantee liabilities and any other Senior Secured Liabilities will be paid (or repaid) in full (or, in the case of any contingent liability relating to a letter of credit, cash management facility or an ancillary facility, made the subject of cash collateral arrangements acceptable to the relevant senior creditor) following that release.

If a Distressed Disposal is being effected at a time when the Majority Topco Creditors are entitled to give, and have given instructions in accordance with the Intercreditor Agreement, the Security Agent is not authorized to release any Debtor, subsidiary or holding company from any borrowing liabilities or guarantee liabilities owed to any Senior Secured Creditor or any Second Lien Creditor unless those borrowing liabilities or guarantee liabilities and any other Senior Secured Liabilities or Second Lien Liabilities will be paid (or repaid) in full (or, in the case of any contingent liability relating to a letter of credit, cash management facility or an ancillary facility, made the subject of cash collateral arrangements acceptable to the relevant senior creditor) following that release.

Where borrowing liabilities in respect of any Senior Secured Liabilities, Second Lien Liabilities, Senior Secured Notes Proceeds Loan Liabilities, Topco Liabilities or Unsecured Liabilities would otherwise be released pursuant to the Intercreditor Agreement, the creditor concerned may elect to have those borrowing liabilities transferred to a holding company of the Senior Secured Notes Issuer, in which case the Security Agent is irrevocably authorized (at the cost of the relevant Debtor or the Senior Secured Notes Issuer and without any consent, sanction, authority or further confirmation from any creditor or Debtor) to execute such documents as are required to so transfer those borrowing liabilities.

If before the Second Lien Discharge Date or the Topco Discharge Date, a Distressed Disposal is being effected such that the Second Lien Liabilities or the Topco Liabilities and Transaction Security over shares in a borrower or issuer of, or over assets of a borrower or issuer of, Second Lien Liabilities or Topco Liabilities will be released pursuant to the Intercreditor Agreement, it is a further condition to the release that either:

- (i) the Second Lien Agent, trustee of the Second Lien Notes, Topco Agent and Topco Notes Trustee (as applicable) have approved the release; or



- (ii) where shares or assets of a borrower, issuer or guarantor in respect of Second Lien Liabilities or Topco Guarantor are sold:
    - A. the proceeds of such sale or disposal are in cash (or substantially in cash) and/or other marketable securities or, if the proceeds of such sale or disposal are not in cash (or substantially in cash) and/or other marketable securities, a valuation opinion has been obtained in accordance with the provisions set out below; and
    - B. all claims of the Secured Parties (other than in relation to performance bonds, guarantees or similar instruments issued by a Secured Creditor on behalf of a member of the Senior Secured Group) against a member of the Senior Secured Group (if any), all of whose shares (other than any minority interest not owned by members of the Senior Secured Group) are pledged in favor of the Priority Secured Parties are sold or disposed of pursuant to such Enforcement Action, are unconditionally released and discharged or sold or disposed of concurrently with such sale (and are not assumed by the purchaser or one of its affiliates), and all Transaction Security, Topco Independent Transaction Security or other security in favor of the Secured Parties in respect of the assets that are sold or disposed of is simultaneously and unconditionally released and discharged concurrently with such sale, provided that in the event of a sale or disposal of any such claim (instead of a release or discharge):
      - (I) where the Senior Secured Creditors constitute the Instructing Group, the Senior Agent and any senior secured notes trustee (i) determine, acting reasonably and in good faith, that the Senior Secured Creditors will recover more than if such claim was released or discharged but nevertheless less than the outstanding Senior Secured Liabilities, and (ii) serve a notice on the Security Agent notifying the Security Agent of the same;
      - (II) where the Second Lien Creditors constitute the Instructing Group, the Second Lien Agent and any second lien notes trustee (i) determine acting reasonably and in good faith that the Priority Secured Parties (collectively) will recover more than if such claim was released or discharged but nevertheless less than the outstanding amount of the liabilities owed to the Priority Secured Parties (the "Priority Secured Liabilities") and (ii) serve a notice on the Security Agent notifying the Security Agent of the same; and
      - (III) where the Topco Creditors constitute the Instructing Group, the Topco Agent and the Topco Notes Trustee (i) determine acting reasonably and in good faith that the Priority Secured Parties and the Topco Creditors (collectively) will recover more than if such claim was released or discharged but is nevertheless less than the outstanding Priority Secured Liabilities and the Topco Liabilities (collectively) and (ii) serve a notice on the Security Agent notifying the Security Agent of the same,
- in which case the Security Agent shall be entitled immediately to sell and transfer such claim to such purchaser (or an affiliate of such purchaser) and the consideration for such sale or transfer may be in the form of non-cash consideration by way of the Senior Secured Creditors, Second Lien Creditors or Topco Creditors (whichever constitutes the Instructing Group) bidding by an appropriate mechanic the Senior Secured Liabilities, Second Lien Liabilities or Topco Liabilities (as applicable) such that the relevant liabilities would on completion be discharged to the extent of an amount equal to the amount of the offer made by the relevant creditors; and
- C. such sale or disposal (including any sale or disposal of any claim) is made:
    - (I) pursuant to a public auction or other competitive sale process run in accordance with the advice of a reputable, independent investment bank, firm of accountants or third-party professional firm with a view to obtaining the best price reasonably obtainable taking into account all relevant circumstances and in which creditors under the Second Lien Liabilities and Topco Liabilities are entitled to participate as prospective buyers and/or financiers; or
    - (II) where a reputable, independent investment bank, firm of accountants or third-party professional firm which is regularly engaged in providing such valuations has delivered an opinion (including an enterprise valuation) in respect of such sale or disposal that the amount is fair from a financial point of view, taking into account all relevant circumstances including the method of enforcement, provided that the liability of such investment bank, firm of accountants or third-party professional firm in giving such opinion may be limited to the amount of its fees in respect of such engagement.

## *Application of Proceeds*

### *Order of Application—Transaction Security*

Subject to certain provisions set out in the Intercreditor Agreement and to the proviso described below, all amounts from time to time received or recovered by the Security Agent pursuant to the terms of any Debt Document (other than amounts in respect of Topco Independent Transaction Security or any other security which is not Transaction Security or any guarantees provided by any holding company of the Senior Notes Issuer or any subsidiary of any holding company of the Senior Secured Notes Issuer (other than a member of the Senior Secured Group) in respect of any Topco Liabilities or Topco Proceeds Loan Liabilities) or in connection with the realization or enforcement of all or any part of the Transaction Security shall be applied at any time as the Security Agent sees fit, in the following order of priority:

- (i) in discharging any Agent Liabilities relating to the Senior Secured Liabilities, the Second Lien Liabilities or the Topco Liabilities and any sums owed to the Security Agent and any receiver or delegate on a *pari passu* basis;
- (ii) in payment of all costs and expenses incurred by any agent or Secured Creditor in connection with any realization or enforcement of the Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent under the Intercreditor Agreement;
- (iii) if the Designation Date has occurred, for application towards the discharge of:
  - A. the Super Senior Lender Liabilities and liabilities to the arrangers and agents thereof; and
  - B. Hedging Liabilities that have been designated by the Senior Secured Notes Issuer as ranking alongside the Super Senior Lender Liabilities (the “Super Senior Hedging Liabilities”) (on a *pro rata* basis between the Super Senior Hedging Liabilities of each such hedge counterparty),on a *pro rata* basis and ranking *pari passu* between paragraphs (A) and (B) above, or, if the Super Senior Discharge Date has occurred, for application towards the discharge of:
  - A. the Senior Lender Liabilities and liabilities to the arrangers thereof;
  - B. the Senior Secured Notes Liabilities;
  - C. the Cash Management Facility Liabilities; and
  - D. the Pari Passu Hedging Liabilities (on a *pro rata* basis between the Pari Passu Hedging Liabilities of each Pari Passu Hedge Counterparty),on a *pro rata* basis and ranking *pari passu* between paragraphs (A), (B), (C) and (D) above;
- (iv) if the Designation Date has not occurred, for application towards the discharge of:
  - A. the Senior Lender Liabilities and liabilities to the arrangers thereof;
  - B. the Senior Secured Notes Liabilities;
  - C. the Cash Management Facility Liabilities; and
  - D. the Hedging Liabilities (on a *pro rata* basis between the Hedging Liabilities of each such hedge counterparty),on a *pro rata* basis and ranking *pari passu* between paragraphs (A), (B), (C) and (D) above;
- (v) for application towards the discharge of (x) the Second Lien Lender Liabilities and liabilities to the arrangers thereof, and (y) the Second Lien Notes Liabilities, on a *pro rata* basis and ranking *pari passu* between themselves;
- (vi) solely to the extent such proceeds are from the realization or enforcement of the Topco Shared Security and any guarantees provided by a Topco Guarantor that is a member of the Senior Secured Group or Third-party Security Provider in respect of the Topco Liabilities, for application towards the discharge of (A) the Topco Facility Liabilities and liabilities to the arrangers thereof, and (B) the Topco Notes Liabilities, on a *pro rata* basis and ranking *pari passu* between themselves;
- (vii) if none of the Debtors or Third-party Security Providers is under any further actual or contingent liability under any Debt Document relating to the Senior Secured Liabilities, the Second Lien

Liabilities or the Topco Liabilities, in payment to any other person whom the Security Agent is obliged to pay in priority to any Debtor or Third-party Security Provider; and

(viii) the balance, if any, in payment to the relevant Debtor,

provided that, all amounts from time to time received or recovered by the Security Agent from or in respect of a Topco Borrower pursuant to the terms of any Debt Document (other than in connection with the realization or enforcement of the Transaction Security or Topco Independent Transaction Security) shall be held by the Security Agent on trust to apply at any time as the Security Agent sees fit, in the following order of priority:

- A. in accordance with paragraph (i) above;
- B. in accordance with paragraph (ii) above;
- C. in accordance with paragraphs (iii), (iv), (v) and (vi) above (in each case only to the extent there are liabilities due from the relevant Topco Borrower to such creditors);
- D. if none of the Debtors or Third-party Security Providers is under any further actual or contingent liability under any Secured Debt Document, in payment to any other person whom the Security Agent is obliged to pay in priority to any Debtor or Third-party Security Provider; and
- E. the balance, if any, in payment to the relevant Debtor.

#### *Order of Application—Topco Independent Transaction Security*

Subject to certain provisions set out in the Intercreditor Agreement, all amounts from time to time received or recovered by the Security Agent pursuant to the terms of any Topco Document in connection with the realization or enforcement of Topco Independent Transaction Security or any guarantees provided by a Topco Guarantor (other than a member of the Senior Secured Group) (the “Topco Recoveries”) shall be applied at any time as the Security Agent sees fit, in the following order of priority:

- (i) in discharging any Agent Liabilities in respect of the Topco Liabilities (to the extent related to such Topco Recoveries), the Security Agent and any receiver or delegate, on a *pari passu* basis;
- (ii) in payment of all costs and expenses incurred by any agent or Topco Creditor in connection with any realization or enforcement of the Topco Independent Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent under the Intercreditor Agreement;
- (iii) for application towards the discharge of:
  - (A) the Topco Facility Liabilities; and
  - (B) the Topco Notes Liabilities,on a pro rata basis and ranking *pari passu* between paragraphs (A) and (B) above;
- (iv) if none of the Debtors or Third-party Security Providers is under any further actual or contingent liability in respect of the Secured Liabilities, in payment to any other person whom the Security Agent is obliged to pay in priority to any Debtor or Third-party Security Provider; and
- (v) the balance, if any, in payment to the relevant Debtor.

#### *Equalization*

The Intercreditor Agreement provides that if, for any reason, any liabilities relating to Super Senior Liabilities, Senior Secured Liabilities, Second Lien Liabilities or Topco Liabilities remain unpaid after the first date on which certain types of Enforcement Action are taken (the “Enforcement Date”) and the resulting losses are not borne by the creditors in any given specified class in the proportions which their respective exposures at the Enforcement Date bore to the aggregate exposures of all the creditors in that specified class at the Enforcement Date, the relevant class of creditors will make such payments amongst themselves as the Security Agent shall require to put the relevant creditors in such a position that (after taking into account such payments) those losses are borne in those proportions.

### ***Required Consents***

The Intercreditor Agreement provides that, subject to certain exceptions, its terms may be amended or waived only with the consent of the Senior Secured Notes Issuer, the agents and trustees for the Secured Parties, and the Security Agent, provided that, to the extent that an amendment, waiver or consent only affects one class of creditors, and such amendment, waiver or consent could not reasonably be expected materially or adversely to affect the interests of the other classes of creditors, only written agreement from the agent or trustee acting on behalf of the affected class shall be required (or in the case of the hedge counterparties, each affected hedge counterparty).

An amendment or waiver of the Intercreditor Agreement that has the effect of changing or which relates to, among other matters, the provisions set out under “—*Application of Proceeds*” above and the order of priority or subordination under the Intercreditor Agreement shall not be made without the consent of (i) each of the agents or trustees (acting in accordance with the relevant finance documents) under the Senior Liabilities, the Super Senior Liabilities, the Second Lien Liabilities and the Topco Liabilities, (ii) each Cash Management Facility Lender (only to the extent that the proposed amendment or waiver would materially adversely affect the rights and obligations of such Cash Management Facility Lender under the Intercreditor Agreement and would not materially adversely affect the rights and obligations of any other creditor or class of creditors), (iii) each hedge counterparty (only to the extent that the proposed amendment or waiver would materially adversely affect the rights and obligations of such hedge counterparty under the Intercreditor Agreement and would not materially adversely affect the rights and obligations of any other creditor or class of creditors), and (iv) the Senior Secured Notes Issuer.

Each agent or trustee shall, to the extent instructed to consent by the requisite percentage of creditors it represents or as otherwise authorized by the Debt Documents to which it is party, act on such instructions or authorizations in accordance therewith (save to the extent any amendments so consented or authorized to relate to any provision affecting the personal rights and obligations of that agent or trustee in its capacity as such).

### ***Amendments and Waivers: Transaction Security Documents***

Subject to certain exceptions under the Intercreditor Agreement (as described below), the Security Agent may, if the Senior Secured Notes Issuer consents, amend the terms of, release or waive any of the requirements of or grant consents under, any document creating Transaction Security or Topco Independent Transaction Security which shall be binding on each party and the prior consent of the Secured Parties is required to authorize any amendment, release or waiver of, or consent under, any document creating Transaction Security which would adversely affect the nature or scope of the assets subject to Transaction Security or the manner in which the proceeds of enforcement of the Transaction Security or Topco Independent Transaction Security are distributed.

### ***Exceptions***

Subject to the paragraph below, an amendment, waiver or consent which relates to the rights or obligations which are personal to an agent, an arranger or the Security Agent in its capacity as such (including, without limitation, any ability of that Security Agent to act in its discretion under the Intercreditor Agreement) may not be effected without the consent of that agent, arranger or, as the case may be, Security Agent.

The preceding paragraph and the first paragraph above under “—*Amendments and Waivers: Transaction Security Documents*” are subject to certain exceptions under the Intercreditor Agreement, relating in particular to (i) any release of Transaction Security, claim or liabilities, or (ii) to any amendment waiver or consent, which, in each case, the Security Agent gives in accordance with the provisions of the Intercreditor Agreement relating to the incurrence of additional or refinancing debt or the provisions set out under “—*New Debt Financing*,” “—*Non-Distressed Disposals*” and “—*Distressed Disposals*” above. Any release, amendment, waiver or consent effected in accordance with the relevant provisions of the Debt Documents relating to such matters can be effected solely by the Senior Secured Notes Issuer and the Security Agent.

### ***Snooze/Lose***

If in relation to a request for a consent, to participate in a vote of a class of creditors, to approve any action or to provide any confirmation or notification, in each case, under the Intercreditor Agreement, any creditor fails to respond to the request within ten business days (or any other period of time notified by the Senior Secured Notes Issuer, with the agreement of each of the agents or trustee in the case of a shorter period of time) or fails to provide details of its credit participation, such creditor will be disregarded or be deemed to have zero participation in respect of the matter or be deemed to have provided the relevant confirmation or notification, as applicable.

### *Provisions Following an IPO*

Following an initial public offering of a member of the Senior Secured Group (or a holding company thereof) (an “IPO”), the Senior Secured Notes Issuer is entitled to give notice that the terms of the Debt Documents will automatically operate so that, amongst other things, (i) the Senior Secured Group (and all related provisions) will now refer to the member of the Senior Secured Group or holding company of the Senior Secured Notes Issuer who will issue shares or whose shares are to be sold pursuant to such IPO (the “IPO Pushdown Entity,” and if any Topco Notes are not refinanced in full on or before the date of such IPO, the IPO Pushdown Entity shall be any holding company of the Senior Secured Notes Issuer which is the issuer or borrower of any Topco Liabilities) and its Restricted Subsidiaries, (ii) all financial ratio calculations shall be made excluding any holding company of the IPO Pushdown Entity, (iii) certain provisions of the Debt Documents (including representations, undertakings and events of default) will cease to apply to any holding company of the IPO Pushdown Entity.

Each holding company of the IPO Pushdown Entity shall be released from all obligations under the Debt Documents (including any Transaction Security) and each Subordinated Creditor, Third-party Security Provider, Investor (as defined in the Senior Secured Credit Facilities Agreement) or Topco Independent Obligor will be released from its obligations and restrictions under the Intercreditor Agreement in the appropriate capacity.

Subject to the consent of the majority lenders under and as defined in the Senior Lender Liabilities, noteholders representing more than 50% of any Senior Secured Notes Liabilities, the majority lenders under and as defined in any Second Lien Facility Agreement, noteholders representing more than 50% of any Second Lien Notes Liabilities, the majority lenders under and as defined in any Topco Facility and noteholders representing more than 50% of any Topco Notes Liabilities (following the relevant IPO), each subsidiary of the IPO Pushdown Entity shall also be released from all obligations as Debtor and guarantor under the Debt Documents and from the Transaction Security (other than, in each case, borrowing liabilities). Each party to the Intercreditor Agreement shall be required to enter into any amendment, release or replacement of any Debt Document required to facilitate such matters.

### *Agreement to Override*

Unless expressly stated otherwise therein, the Intercreditor Agreement overrides anything in any other Debt Documents to the contrary (other than any Transaction Security documents which are governed by German law and need to be notarized (*beurkundet*)).

### **2017 Senior Notes**

On September 29, 2017, in connection with the financing of the STADA Acquisition, the Senior Notes Issuer issued €340.0 million in aggregate principal amount of 5% Senior Notes due 2025 (the “2017 Senior Notes”). The 2017 Senior Notes are governed by the 2017 Senior Notes Indenture. The 2017 Senior Notes mature on September 30, 2025.

The 2017 Senior Notes are guaranteed by the Senior Notes Guarantors. The 2017 Senior Notes and the guarantees thereof are, pursuant to the terms of the Intercreditor Agreement, secured (i) on a first-priority basis by a pledge of the shares in the Senior Notes Issuer, a security assignment of any structural intercompany receivables owed by the Senior Notes Issuer to German Midco and a pledge of the material bank accounts of the Senior Notes Issuer and (ii) on a second priority basis by security interests over the Shared Collateral. See “—*Intercreditor Agreement*.”

At any time prior to September 30, 2020, the Senior Notes Issuer may redeem all or part of the 2017 Senior Notes at a redemption price equal to 100% of the principal amount of such 2017 Senior Notes plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date, plus a “make whole” redemption premium. Additionally, at any time and from time to time prior to September 30, 2020, the Senior Notes Issuer may, at its option, redeem 2017 Senior Notes with the net cash proceeds received by the Senior Notes Issuer from certain equity offerings at a redemption price equal to 105.000% of the principal amount of the 2017 Senior Notes so redeemed, plus accrued and unpaid interest and additional amounts, if any, to but excluding the redemption date in an aggregate principal amount for all such redemptions not to exceed 40% of the original aggregate principal amount of the 2017 Senior Notes (including any additional 2017 Senior Notes), so long as in each case such redemption takes place not later than 180 days after the closing of the related equity offering and not less than 60% of the



original aggregate principal amount of the 2017 Senior Notes (including additional 2017 Senior Notes) remains outstanding immediately after each such redemption.

On or after September 30, 2020, the Senior Notes Issuer may redeem all or part of the 2017 Senior Notes at a redemption price equal to the percentage of principal amount of the 2017 Senior Notes so redeemed set forth below plus accrued and unpaid interest, if any, on the 2017 Senior Notes redeemed, if redeemed during the twelve month period beginning on September 30 of the year indicated below:

<u>Year</u>	<u>Redemption Price</u>
2020.....	102.500%
2021.....	101.250%
2022, and thereafter .....	100.000%

If a change of control triggering event occurs, unless (i) a third-party makes a change of control offer as described in the 2017 Senior Notes Indenture or (ii) the Senior Notes Issuer has previously or substantially concurrently therewith delivered a redemption notice with respect to all the outstanding 2017 Senior Notes as described above, the Senior Notes Issuer is required to make an offer to purchase all of the 2017 Senior Notes at a price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to but excluding the date of repurchase. The relevant change of control triggering events are defined in the 2017 Senior Notes Indenture and subject to significant exemptions, including where the Senior Notes Issuer's consolidated total net leverage ratio is less than 5.70 to 1.00.

The 2017 Senior Notes Indenture provides for covenants and events of default that are consistent with the 2017 Senior Notes Indenture.

The 2017 Senior Notes and the 2017 Senior Notes Indenture are governed by the laws of the State of New York.

The 2017 Senior Notes are listed and admitted to dealing on the Official List of the Exchange.

## **2018 Senior Notes**

On December 4, 2018 and December 13, 2018, in connection with the Delisting Offer, the Senior Notes Issuer issued €250.0 million in aggregate principal amount of 7¼% Senior Notes due 2025 (the "2018 Senior Notes"). The 2018 Senior Notes are governed by the 2018 Senior Notes Indenture. The 2018 Senior Notes mature on September 30, 2025.

The 2018 Senior Notes are guaranteed by the Senior Notes Guarantors. The 2018 Senior Notes and the guarantees thereof are, pursuant to the terms of the Intercreditor Agreement, secured (i) on a first-priority basis by a pledge of the shares in the Senior Notes Issuer, a security assignment of any structural intercompany receivables owed by the Senior Notes Issuer to German Midco and a pledge of the material bank accounts of the Senior Notes Issuer and (ii) on a second priority basis by security interests over the Shared Collateral. See "*—Intercreditor Agreement.*"

At any time prior to September 30, 2020, the Senior Notes Issuer may redeem all or part of the 2018 Senior Notes at a redemption price equal to 100% of the principal amount of such 2018 Senior Notes plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date, plus a "make whole" redemption premium. Additionally, at any time and from time to time prior to September 30, 2020, the Senior Notes Issuer may, at its option, redeem 2018 Senior Notes with the net cash proceeds received by the Senior Notes Issuer from certain equity offerings at a redemption price equal to 107.250% of the principal amount of the 2018 Senior Notes so redeemed, plus accrued and unpaid interest and additional amounts, if any, to but excluding the redemption date in an aggregate principal amount for all such redemptions not to exceed 40% of the original aggregate principal amount of the 2018 Senior Notes (including any additional 2018 Senior Notes), so long as in each case such redemption takes place not later than 180 days after the closing of the related equity offering and not less than 60% of the original aggregate principal amount of the 2018 Senior Notes (including additional 2018 Senior Notes) remains outstanding immediately after each such redemption.

On or after September 30, 2020, the Senior Notes Issuer may redeem all or part of the 2018 Senior Notes at a redemption price equal to the percentage of principal amount of the 2018 Senior Notes so redeemed

set forth below plus accrued and unpaid interest, if any, on the 2018 Senior Notes redeemed, if redeemed during the twelve-month period beginning on September 30 of the year indicated below:

<u>Year</u>	<u>Redemption Price</u>
2020.....	103.6250%
2021.....	101.8125%
2022, and thereafter .....	100.000%

If a change of control triggering event occurs, unless (i) a third-party makes a change of control offer as described in the 2018 Senior Notes Indenture or (ii) the Senior Notes Issuer has previously or substantially concurrently therewith delivered a redemption notice with respect to all the outstanding 2018 Senior Notes as described above, the Senior Notes Issuer is required to make an offer to purchase all of the 2018 Senior Notes at a price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to but excluding the date of repurchase. The relevant change of control triggering events are defined in the 2018 Senior Notes Indenture and subject to significant exemptions, including where the Senior Notes Issuer's consolidated total net leverage ratio is less than 5.70 to 1.00.

The 2018 Senior Notes Indenture provides for covenants and events of default that are consistent with the Senior Secured Notes Indenture, as adjusted for the ranking of the 2018 Senior Notes.

The 2018 Senior Notes and the 2018 Senior Notes Indenture are governed by the laws of the State of New York.

The 2018 Senior Notes are listed and admitted to dealing on the Official List of the Exchange.

## **2022 Notes**

In 2015, STADA Arzneimittel AG issued €300.0 million in aggregate principal amount of senior unsecured notes (the "2022 Notes"). The 2022 Notes mature on April 8, 2022, and bear interest at a fixed rate of 1.75% per annum. The 2022 Notes are senior unsecured obligations of STADA, ranking *pari passu* among themselves. The net proceeds of the 2022 Notes were used for general corporate purposes. STADA may redeem the 2022 Notes in the event of certain adverse changes in taxation. The terms and conditions governing the 2022 Notes provide for customary events of default and change of control provisions and a customary negative pledge clause which limits the ability of STADA and its material subsidiaries to incur liens on their respective assets to secure certain other indebtedness, without simultaneously securing the 2022 Notes on an equal and ratable basis. The 2022 Notes are governed by German law and listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the regulated market thereof. As of September 30, 2019, €267.4 million was outstanding under the 2022 Notes.

The grant of security interests by German Holdco, STADA and the other Senior Secured Notes Guarantors in favor of the Senior Secured Notes and the Senior Secured Credit Facilities has resulted in a default under the 2022 Notes, which entitles individual holders of the 2022 Notes to demand repayment at a price of par plus accrued interest.

## **Promissory Notes**

As of September 30, 2019, an amount of (i) €4 million was outstanding under a first tranche of senior unsecured promissory notes (*Schuldscheindarlehen*), which would need to be repaid in full in November 2019; (ii) €41.5 million was outstanding under a second tranche of *Schuldscheindarlehen*, which would need to be repaid in full in April 2021 and (iii) €7 million was outstanding under a third tranche of *Schuldscheindarlehen*, which would need to be repaid in full in November 2023.

## **Factoring Agreements**

As of the date of this offering memorandum, we have several factoring agreements in place. Under these agreements, we can assign and sell certain eligible trade receivables to our counterparty on a non-recourse basis. As of September 30, 2019, an amount of €126.3 million was outstanding under these agreements.

**Local Credit Lines**

As of the date of this offering memorandum, we also had credit facilities in a principal amount equal to approximately €40.2 million in Argentina, Serbia and Vietnam.

**Derivative Agreements**

As of the date of this offering memorandum, we have certain derivative instruments in place, including foreign exchange future contracts, interest rate swap agreements and cross currency swap agreements. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures Regarding Financial Risks—Currency Risk.”*

## DESCRIPTION OF THE TEMPORARY NOTES

Nidda Healthcare Holding GmbH (the “*Senior Secured Notes Issuer*”) will issue €            million in aggregate principal amount of 3½% Senior Secured Notes due 2024 (the “*Takeda Temporary Notes*”) under an indenture (as amended and supplemented from time to time, the “*Takeda Temporary Indenture*”) to be dated on or about the date on which the Takeda Temporary Notes are issued (the “*New Issue Date*”), among, *inter alios*, the Senior Secured Notes Issuer, as issuer, U.S. Bank Trustees Limited, as trustee (in such capacity, the “*Temporary Notes Trustee*”) and Elavon Financial Services DAC, UK Branch (the “*Temporary Paying Agent*”), in a private transaction that is not subject to the registration requirements of the Securities Act. See “*Transfer Restrictions*.” The Senior Secured Notes Issuer will issue the Takeda Temporary Notes in minimum denominations of €100,000 and any integral multiple of €1,000 in excess thereof. The issue price of the Takeda Temporary Notes is            % of the principal amount thereof plus interest accrued from, and including, September 30, 2019, to, but excluding, the New Issue Date. Interest on the Takeda Temporary Notes will accrue at the rate of 3.50% per annum.

Upon satisfaction of the conditions set forth in the Escrow Agreement and release of the Escrowed Property from the Escrow Account (each as defined below), the proceeds of the Takeda Temporary Notes, together with a portion of the proceeds from a drawing under Facility E (if required), will be used (i) to finance the Takeda Acquisition, (ii) to pay the costs, fees and expenses incurred in connection with the Takeda Transactions and (iii) for general corporate purposes as set forth in this offering memorandum under the caption “*Use of Proceeds*.”

The terms and conditions of the Takeda Temporary Notes include those stated in the Takeda Temporary Indenture and are substantially the same as the terms and conditions of the Tap Notes as described under “*Description of the Senior Secured Notes*,” except:

- subject to the provisions described under “—*Escrow of Proceeds; Special Mandatory Redemption*” below, on the Temporary Notes Exchange Date (as defined below), the Takeda Temporary Notes will automatically be exchanged for an equal aggregate principal amount of Additional Senior Secured Notes issued under the Existing Senior Secured Notes Indenture (the “*Takeda Tap Notes*”);
- upon the issuance of the Takeda Tap Notes, the Takeda Temporary Notes will be cancelled;
- in the event that, in the reasonable judgment of the Senior Secured Notes Issuer, the Takeda Acquisition will not be consummated on or prior to August 7, 2020 (the “*Longstop Date*”), or upon certain other events described herein, the Senior Secured Notes Issuer will redeem the entire aggregate principal amount of the Takeda Temporary Notes then outstanding at a price equal to 100% of the aggregate issue price of such Takeda Temporary Notes, plus accrued but unpaid interest and additional amounts, if any, from the later of the New Issue Date and the most recent interest payment date to (but not including) the Special Mandatory Redemption Date;
- the Takeda Temporary Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the “*Takeda Temporary 144A Global Notes*”), and the Takeda Temporary Notes sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the “*Takeda Temporary Regulation S Global Notes*”), and, in each case, will have separate ISINs and common codes from the Senior Secured Notes. Application will be made to The International Stock Exchange Authority Limited for the Takeda Temporary Notes to be separately admitted to the Official List of The International Stock Exchange timely so the Takeda Temporary Notes are listed if they are still outstanding on their first interest payment date;
- the Takeda Temporary Notes will not be guaranteed;
- the Takeda Temporary Notes will not be entitled to the Collateral referred to under “*Description of the Senior Secured Notes—Security*”;
- the Takeda Temporary Notes will be secured on a first-ranking basis by a charge over the Escrow Account in which the proceeds of the Offering of the Takeda Temporary Notes will be held prior to the date on which proceeds will be released from such account to be used as described under “*Use of Proceeds*”; and

- the failure to consummate the Special Mandatory Redemption (as defined below) under “—*Escrow of Proceeds; Special Mandatory Redemption*” will constitute an “Event of Default” under the Takeda Temporary Indenture.

Interest on the Takeda Temporary Notes will be deemed to have accrued from September 30, 2019, and holders of Takeda Temporary Notes will receive Takeda Tap Notes on which interest will be deemed to have accrued from the later of (i) September 30, 2019 and (ii) the most recent (if any) interest payment date under the Takeda Temporary Indenture.

### **Escrow of Proceeds; Special Mandatory Redemption**

Concurrently with the closing of the offering of the Takeda Temporary Notes on the New Issue Date, the Senior Secured Notes Issuer will enter into an agreement the (“*Escrow Agreement*”) with, *inter alios*, the Temporary Notes Trustee and JPMorgan Chase Bank, N.A., London Branch the (“*Escrow Agent*”), pursuant to which the Initial Purchasers will deposit an amount equal to the gross proceeds of the Takeda Temporary Notes (which will include an amount equal to the accrued and unpaid interest on the Takeda Temporary Notes from, and including, September 30, 2019, to, but excluding, the New Issue Date) sold on the New Issue Date into a segregated escrow account (the “*Escrow Account*”) in the name of the Senior Secured Notes Issuer and which will be controlled by the Escrow Agent. The Escrow Account will be pledged on a first-ranking basis in favor of the Temporary Notes Trustee for the benefit of the Holders of the Takeda Temporary Notes pursuant to an escrow charge dated the New Issue Date between the Senior Secured Notes Issuer and the Temporary Notes Trustee (the “*Escrow Charge*”). The initial funds deposited in the Escrow Account and all other funds, securities, interest, dividends, distributions and other property and payments credited to the Escrow Account (less any property and/or funds paid in accordance with the Escrow Agreement) are referred to, collectively, as the “*Escrowed Property*.”

In order to cause the Escrow Agent to release the Escrowed Property to the Senior Secured Notes Issuer (the “*Escrow Release*”), the Escrow Agent and the Temporary Notes Trustee shall have received from the Senior Secured Notes Issuer on or prior to August 7, 2020 (the “*Longstop Date*”), an Officer’s Certificate, upon which both the Escrow Agent and the Temporary Notes Trustee shall be able to conclusively rely without further investigation, to the effect that all of the following conditions (the “*Escrow Release Conditions*”) have been met or will be satisfied on or prior to the Business Day immediately following the Longstop Date:

- (1) the funds required to pay the consideration for the Takeda Acquisition will be applied promptly (and in any event within two Business Days) after release of the Escrowed Property, in accordance with the terms of the Takeda Acquisition Agreement;
- (2) immediately after the consummation of the Takeda Acquisition, STADA will own, directly or indirectly, the Takeda CIS Assets (subject to notarization or other similar legal formalities) in accordance with the terms of the Takeda Acquisition Agreement, except for any changes, waivers or other modifications that would not adversely affect the interests of the Holders of the Takeda Temporary Notes in a material respect;
- (3) on the date of the Escrow Release (the “*Escrow Release Date*”), legal opinions and officer’s certificates substantially in the form as agreed between the Senior Secured Notes Issuer and the Initial Purchasers will be delivered;
- (4) on the Escrow Release Date, certain entities of the group will execute and deliver, as applicable, appropriate documentation to effect the granting of, or reconfirmation of, security interests in the collateral securing the Existing Senior Secured Notes to the Takeda Tap Notes; and
- (5) as of the Escrow Release Date, no bankruptcy or insolvency event of default with respect to the Senior Secured Notes Issuer, as described in the event of default provisions of the Takeda Temporary Indenture, has occurred.

The Escrow Release shall occur promptly following receipt of such Officer’s Certificate. Upon the Escrow Release, the Escrow Account shall be reduced to zero, and the Escrowed Property shall be paid out in accordance with the Escrow Agreement.

In the event that (a) the Takeda Acquisition Completion Date does not occur on or prior to the Longstop Date, (b) the Senior Secured Notes Issuer notifies the Temporary Notes Trustee and the Escrow Agent that in its reasonable judgment the Takeda Acquisition will not be completed by the Longstop Date, or (c) a bankruptcy or insolvency event arises in respect of the Senior Secured Notes Issuer under the Takeda



Temporary Indenture on or prior to the Longstop Date (the date of any such event being the “*Special Termination Date*”), the Senior Secured Notes Issuer will redeem all of the Takeda Temporary Notes (the “*Special Mandatory Redemption*”) at a price (the “*Special Mandatory Redemption Price*”) equal to 100% of the aggregate issue price of the Takeda Temporary Notes, plus accrued but unpaid interest and Additional Amounts, if any, from, and including, the New Issue Date to, but excluding, the Special Mandatory Redemption Date (as defined below) (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Notice of the Special Mandatory Redemption will be delivered by the Senior Secured Notes Issuer, no later than one Business Day following the Special Termination Date, to the Temporary Notes Trustee, the Temporary Paying Agent and the Escrow Agent, and the Escrow Agreement and the Takeda Temporary Indenture will provide that the Takeda Temporary Notes shall be redeemed on a date that is no later than the fifth Business Day after such notice is given by the Senior Secured Notes Issuer in accordance with the terms of the Escrow Agreement (the “*Special Mandatory Redemption Date*”). On the Special Mandatory Redemption Date, the Escrow Agent shall pay, on behalf of the Senior Secured Notes Issuer, to the Temporary Paying Agent for payment to each Holder of Takeda Temporary Notes the Special Mandatory Redemption Price for such Holder’s Takeda Temporary Notes and, concurrently with the payment to such Holders, deliver any excess Escrowed Property (if any) to the Senior Secured Notes Issuer.

Receipt by the Temporary Notes Trustee from the Senior Secured Notes Issuer of either an Officer’s Certificate for the Escrow Release or a notice of Special Mandatory Redemption shall constitute deemed consent by the Temporary Notes Trustee for the release (in the case of a notice of Special Mandatory Redemption, following the completion of such Special Mandatory Redemption) of the Escrowed Property from the Escrow Charge.

The provisions of the Takeda Temporary Indenture relating to the Longstop Date or the Senior Secured Notes Issuer’s obligation to redeem the Takeda Temporary Notes in connection with a Special Mandatory Redemption may be waived or modified with the written consent of Holders of a majority in outstanding aggregate principal amount of the Takeda Temporary Notes.

## DESCRIPTION OF THE SENIOR SECURED NOTES

*You will find definitions of certain capitalized terms used in this “Description of the Senior Secured Notes” under the heading “Certain Definitions” below. For purposes of this “Description of the Senior Secured Notes,” references to the “Issuer,” “we,” “our,” and “us” refer only to Nidda Healthcare Holding GmbH and not to any of its Subsidiaries.*

The following is a description of the up to €            million in aggregate principal amount of 3½% Senior Secured Notes due 2024 (the “*Tap Notes*”). The Tap Notes will be issued by Nidda Healthcare Holding GmbH (formerly, Nidda Healthcare Holding AG) (the “*Issuer*”) under the indenture dated as of September 29, 2017 (as amended and supplemented from time to time, the “*Senior Secured Notes Indenture*”) between, *inter alios*, the Issuer, the guarantors named therein, U.S. Bank Trustees Limited, as trustee (in such capacity, the “*Trustee*”) and as security agent (in such capacity, the “*Security Agent*”), and Elavon Financial Services DAC, UK Branch, as paying agent, in a private transaction that is not subject to the registration requirements of the Securities Act. See “*Notice to Certain Investors*” and “*Transfer Restrictions*.” Pursuant to the Senior Secured Notes Indenture, the Issuer previously issued €735.0 million in aggregate principal amount of 3½% Senior Secured Notes (the “*Original Senior Secured Notes*”) on September 29, 2017 (the “*Original Issue Date*”). The Tap Notes will constitute Additional Senior Secured Notes (as defined below), will have the same terms and conditions as the Original Senior Secured Notes and will constitute a single class of securities with the Original Senior Secured Notes for all purposes under the Senior Secured Notes Indenture, including, without limitation, waivers, amendments, redemptions, and offers to purchase; *provided* that, if the Tap Notes are not fungible with the Original Senior Secured Notes for U.S. federal income tax purposes, such Tap Notes will be issued with separate ISINs and common codes from the Original Senior Secured Notes. The Senior Secured Notes Indenture has not been qualified under, and does not incorporate by reference or include, nor is it subject to, any of the provisions of the Trust Indenture Act, including Section 316(b) thereof. Consequently, the Holders are not entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture, including among other things, those requiring the Trustee to resign in the event of certain conflicts of interest and to inform Holders of certain relationships between it and us.

The Tap Notes consist of (i) €            million in aggregate principal amount of Additional Senior Secured Notes (the “*Walmart Tap Notes*”) to be issued on or about the New Issue Date and (ii) €            million in aggregate principal amount of Additional Senior Secured Notes (the “*Takeda Tap Notes*”) to be issued upon the automatic exchange of the Takeda Temporary Notes as described in “*Description of the Temporary Notes*.” The terms of the Tap Notes include those set forth in the Senior Secured Notes Indenture.

The Takeda Temporary Notes offered hereby will be issued bearing temporary international securities identification numbers (“*ISINs*”) and temporary common codes that differ from both the ISINs and common codes assigned to the Original Senior Secured Notes and those assigned to the Walmart Tap Notes, and will also bear an applicable restrictive legend referred to under the heading “*Transfer Restrictions*” in this offering memorandum. On the date on which the Takeda Acquisition is consummated (the “*Takeda Acquisition Completion Date*”), the Takeda Temporary Notes will be automatically exchanged into the Takeda Tap Notes (the date of such exchange, the “*Temporary Notes Exchange Date*”).

We expect that the Tap Notes will share the same ISIN and common code with the Original Senior Secured Notes and that the Original Senior Secured Notes and the Tap Notes are intended thereafter to be fungible.

Prior to (i) the Takeda Acquisition Completion Date, we will not control the Takeda CIS Assets, and the Takeda CIS Assets will not be subject to the covenants described in this Description of the Senior Secured Notes and (ii) the Walmart Acquisition Completion Date, we will not control the Walmart Group, and the Walmart Group will not be subject to the covenants described in this Description of the Senior Secured Notes. As such, we cannot assure you that prior to the completion date of the relevant acquisition the Takeda CIS Assets and the Walmart Group will not engage in activities that would otherwise have been prohibited by the Senior Secured Notes Indenture had those covenants been applicable to it after the date of issuance of the Additional Notes and prior to the completion date of the relevant acquisition.

The Senior Secured Notes Indenture is unlimited in aggregate principal amount, of which up to €            million in aggregate principal amount of Senior Secured Notes will be issued in connection with this Offering. We may, subject to applicable law and the terms of the Senior Secured Notes Indenture, issue an unlimited principal amount of additional Senior Secured Notes having identical terms and conditions (other than the issue price) as the Senior Secured Notes (any such additional Senior Secured

Notes actually issued, the “*Additional Senior Secured Notes*”); *provided* that if any series of Additional Senior Secured Notes is not fungible for U.S. federal income tax purposes with the Senior Secured Notes, such Additional Senior Secured Notes will be issued with a separate ISIN code or common code from the Senior Secured Notes originally issued. We will only be permitted to issue Additional Senior Secured Notes in compliance with the covenants contained in the Senior Secured Notes Indenture, including the covenants restricting the Incurrence of Indebtedness and the Incurrence of Liens. See “*Certain Covenants—Limitation on Indebtedness*” and “*Certain Covenants—Limitation on Liens*.” Except as otherwise provided for in the Senior Secured Notes Indenture, the Senior Secured Notes, and if issued, Additional Senior Secured Notes, will be treated as a single class for all purposes under the Senior Secured Notes Indenture, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, in this “*Description of the Senior Secured Notes*,” references to the “Senior Secured Notes” include the Senior Secured Notes and any Additional Senior Secured Notes (including the Tap Notes, if any) that are actually issued under the Senior Secured Notes Indenture.

The Senior Secured Notes Indenture is subject to the terms of the Intercreditor Agreement and any Additional Intercreditor Agreements (as defined below), and in the case of certain conflicts between the terms of the Senior Secured Notes Indenture and the Intercreditor Agreement, the terms of the Intercreditor Agreement will prevail. The terms of the Intercreditor Agreement are important to understanding the relative ranking of indebtedness and security, the ability to make payments in respect of the indebtedness, the procedures for undertaking enforcement action, the subordination of certain indebtedness, turnover obligations, release of security and guarantees, and the payment waterfall for amounts received by the Security Agent. See “*Description of Certain Financing Arrangements—Intercreditor Agreement*” for a description of certain terms of the Intercreditor Agreement.

This “*Description of the Senior Secured Notes*” is intended to be an overview of the material provisions of the Senior Secured Notes and the Senior Secured Notes Indenture and refers to the Intercreditor Agreement and the Senior Secured Security Documents. Since this description of the terms of the Senior Secured Notes is only a summary, you should refer to the Senior Secured Notes, the Senior Secured Notes Indenture, the Intercreditor Agreement and the Senior Secured Security Documents for complete descriptions of the obligations of the Issuer and your rights. Copies of such documents will be available from us upon request on and after the Original Issue Date.

The registered Holder of a Senior Secured Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Senior Secured Notes Indenture, including, without limitation, with respect to enforcement and the pursuit of other remedies. The Senior Secured Notes have not been, and will not be, registered under the Securities Act and are, or will be, subject to certain transfer restrictions.

## **General**

### ***The Senior Secured Notes***

The Senior Secured Notes:

- are, or will be, general senior obligations of the Issuer, secured as set forth under “*Security*”;
- rank, or will rank, *pari passu* in right of payment with any existing and future indebtedness of the Issuer that is not subordinated in right of payment to the Senior Secured Notes (including obligations of the Issuer under the Senior Facilities Agreement and certain hedging obligations);
- rank, or will rank, senior in right of payment to any existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Senior Secured Notes, including the Senior Notes Guarantees;
- are, or will be, effectively subordinated to any existing or future indebtedness or obligation of the Issuer and its Subsidiaries that is secured by property or assets that do not secure the Senior Secured Notes, to the extent of the value of the property and assets securing such obligation or indebtedness;
- are, or will be, structurally subordinated to any existing or future indebtedness of the Subsidiaries of the Issuer that are not Guarantors, including their obligations to their trade creditors;
- are, or will be, guaranteed by the Guarantors on a senior secured basis;
- are, or will be, secured by the Collateral (as defined below);

- will mature on September 30, 2024; and
- are, or will be, represented by one or more registered Senior Secured Notes in global form, but in certain circumstances may be represented by Definitive Registered Senior Secured Notes (as defined below). See “*Book-Entry, Delivery and Form.*”

Under the terms of the Intercreditor Agreement, the Holders will receive proceeds from the enforcement of the Collateral (as defined below) on a *pari passu* basis with all indebtedness that is not subordinated in right of payment to the Senior Secured Notes and the Senior Secured Notes Guarantees, including obligations under the Senior Facilities Agreement and certain hedging obligations; *provided, however*, that the Revolving Credit Facility may be re-designated as a “super senior” obligation under the Intercreditor Agreement, and following such re-designation, Holders will only receive proceeds from the enforcement of the Collateral after the obligations thereunder (and certain super senior hedging obligations) have been paid in full. See “*Description of Certain Financing Arrangements—Intercreditor Agreement*” and “*Certain Definitions—Permitted Collateral Liens.*”

The Issuer is a holding company incorporated for the purposes of the STADA Acquisition, and the Issuer’s only material assets consist of its indirect interests in its Subsidiaries. All of the operations of the Issuer are conducted through its Subsidiaries. Therefore, the Issuer depends on the receipt of funds from its Subsidiaries (whether in the form of dividends, other distributions, return on capital or payments with respect to intercompany obligations) to meet its obligations, including its obligations under the Senior Secured Notes. The Senior Secured Notes are, or will be, structurally subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Issuer’s Subsidiaries that are not Guarantors.

As of both the Original Issue Date and the date of this offering memorandum, all of the Issuer’s Subsidiaries were “*Restricted Subsidiaries*” for the purposes of the Senior Secured Notes Indenture. However, under the circumstances described below under “*Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries,*” we will be permitted to designate certain of our Subsidiaries as “*Unrestricted Subsidiaries.*” Our Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Senior Secured Notes Indenture and will not guarantee the Senior Secured Notes.

As of September 30, 2019, after giving *pro forma* effect to the Transactions, the Issuer and its consolidated Subsidiaries would have had €3,900.3 million of Indebtedness secured with a first-priority Lien on the Collateral, consisting of €            million of drawings under the Senior Term Loans and €            million in aggregate principal amount of Senior Secured Notes, in addition to €360.1 million of STADA Existing Debt. As of September 30, 2019, the Revolving Credit Facility was undrawn.

### ***The Senior Secured Notes Guarantees***

The Senior Secured Notes are, or will be, guaranteed by the Guarantors on a senior secured basis. In addition, if required by the covenant described under “*Certain Covenants—Additional Guarantees,*” certain other Restricted Subsidiaries may provide a Senior Secured Notes Guarantee (as defined below) in the future.

The Senior Secured Notes Guarantee of each Guarantor:

- is, or will be, a general senior obligation of that Guarantor, secured as set forth under “*Security*”;
- ranks, or will rank, *pari passu* in right of payment with any existing and future indebtedness of that Guarantor that is not subordinated in right of payment to such Senior Secured Notes Guarantee of that Guarantor (including obligations under the Senior Facilities Agreement and certain hedging obligations);
- ranks, or will rank, senior in right of payment to all existing and future indebtedness of that Guarantor that is subordinated in right of payment to its Senior Secured Notes Guarantee, including the Senior Notes Guarantees;
- is, or will be, effectively subordinated to any existing or future indebtedness or obligation of that Guarantor and its subsidiaries that is secured by property or assets that do not secure the Senior Secured Notes or the Senior Secured Notes Guarantees, to the extent of the value of the property and assets securing such indebtedness; and

- is, or will be, structurally subordinated to any existing or future indebtedness of the Subsidiaries of that Guarantor that do not guarantee the Senior Secured Notes, including their obligations to trade creditors.

The obligations of a Guarantor under its Senior Secured Notes Guarantee are, or will be, as applicable, limited as necessary to prevent the relevant Senior Secured Notes Guarantee from constituting a fraudulent conveyance or unlawful financial assistance under applicable law, or otherwise to reflect limitations under applicable law. In addition, the Senior Secured Notes Guarantees will be further limited as required under the Agreed Security Principles as described below under “*Senior Secured Notes Guarantees—General.*” By virtue of these limitations, a Guarantor’s obligation under its Senior Secured Notes Guarantee could be significantly less than amounts payable with respect to the Senior Secured Notes, or a Guarantor may have effectively no obligation under its Senior Secured Notes Guarantee. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—The insolvency laws of Germany and other applicable jurisdictions may not be as favorable to you as the insolvency laws of the United States or those of another jurisdiction with which you are familiar; other limitations on the Senior Secured Notes Guarantees and the Security Interests, including fraudulent conveyance statutes, may adversely affect their validity and enforceability.*” The validity and enforceability of the Senior Secured Notes Guarantees and the liability of each Guarantor will be subject to the limitations described in “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.*”

### **Principal, Maturity and Interest**

In this Offering, the Issuer will issue up to €                    million in aggregate principal amount of Tap Notes. The Senior Secured Notes will mature on September 30, 2024. The Senior Secured Notes (including the Tap Notes) will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof. While the Senior Secured Notes may only be traded in denominations of €100,000 and in integral multiples of €1,000 in excess thereof, for the purpose of the International Central Securities Depositories (“ICSDs”), the minimum denomination will be considered to be €1. For the avoidance of doubt, the ICSDs are not required to monitor or enforce the minimum amount.

The Senior Secured Notes (together with any Additional Senior Secured Notes) will be treated as a single class for all purposes under the Senior Secured Notes Indenture, including in respect of any amendment, waiver or other modification of the Senior Secured Notes Indenture or any other action by the Holders hereunder, except as otherwise provided in the Senior Secured Notes Indenture.

Interest on overdue principal and interest on the Senior Secured Notes will accrue at a rate that is 1% higher than the interest rate on the overdue principal or interest.

### ***Interest on the Senior Secured Notes***

Interest on the Senior Secured Notes accrues, or will accrue, at the rate of 3.50% per annum. Interest on the Senior Secured Notes is, or will be, payable semi-annually in arrears on March 30 and September 30. Interest on the Senior Secured Notes is, or will be, payable to the holder of record of such Senior Secured Notes on the Business Day immediately preceding the related interest payment date.

Interest on the Senior Secured Notes (other than the Tap Notes) will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest on the Tap Notes will accrue from September 30, 2019, *provided* that, if the Temporary Notes Exchange Date occurs on or after March 30, 2020, the Takeda Tap Notes will accrue interest from March 30, 2020. Interest is, or will be, computed on the basis of a 360-day year comprised of twelve 30-day months.

The rights of Holders to receive the payments of interest on the Senior Secured Notes are subject to applicable procedures of Euroclear and Clearstream. If the due date for any payment in respect of any Senior Secured Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

The right of holders of beneficial interests in the Senior Secured Notes to receive the payment on such Senior Secured Notes will be subject to the applicable procedures of Euroclear and Clearstream, as applicable.



### ***Methods of Receiving Payments on the Senior Secured Notes***

Principal, interest and premium and Additional Amounts, if any, on the Senior Secured Notes (as defined below) will be made by one or more Paying Agents by wire transfer of immediately available funds to the account specified by the registered Holder thereof (initially being the common depositary or its nominee for Euroclear and Clearstream).

Principal, interest and premium, and Additional Amounts, if any, on any certificated securities (“*Definitive Registered Senior Secured Notes*”) will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes in London, United Kingdom. In addition, interest on the Definitive Registered Senior Secured Notes may be paid, at the option of the Issuer, by check mailed to the address of the Holder entitled thereto as shown on the register of Holders of Senior Secured Notes for the Definitive Registered Senior Secured Notes. See “*Paying Agent and Registrar for the Senior Secured Notes*” below.

### ***Paying Agent and Registrar for the Senior Secured Notes***

The Issuer will maintain one or more Paying Agents for the Senior Secured Notes in London, United Kingdom (including the initial Paying Agent). The initial Paying Agent is Elavon Financial Services DAC, UK Branch (the “*Paying Agent*”).

The Issuer will also maintain a registrar (the “*Registrar*”) and a transfer agent (the “*Transfer Agent*”). The initial Registrar is Elavon Financial Services DAC and the initial Transfer Agent is Elavon Financial Services DAC, UK Branch. The Registrar will maintain a register reflecting ownership of the Senior Secured Notes outstanding from time to time, if any, and together with the Transfer Agent, will facilitate transfers of the Senior Secured Notes on behalf of the Issuer. A register of the Senior Secured Notes shall be left at the registered office of the Issuer. In case of inconsistency between the register of Senior Secured Notes kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer shall prevail.

Upon written notice to the Trustee, the Issuer may change any Paying Agent, Registrar or Transfer Agent for the Senior Secured Notes without prior notice to the Holders of such Senior Secured Notes. However, for so long as Senior Secured Notes are listed on the Official List of The International Stock Exchange (the “*Exchange*”) and if and to the extent that the rules of the Authority so require, the Issuer will notify the Exchange of any change of Paying Agent, Registrar or Transfer Agent. The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar in respect of the Senior Secured Notes.

## **Senior Secured Notes Guarantees**

### ***General***

The Senior Secured Notes are, or will be, guaranteed on a senior secured basis by the Guarantors. Each Senior Secured Notes Guarantee is a full and unconditional Guarantee of the Issuer’s obligations under the Senior Secured Notes, subject to the contractual limitations discussed below. In addition, as described under “*Certain Covenants—Additional Guarantees*” and subject to the Intercreditor Agreement and the Agreed Security Principles, certain Subsidiaries of the Issuer that guarantee the Senior Facilities in the future or any Credit Facility or Public Debt, in each case of the Issuer or a Guarantor, shall also enter into a supplemental senior secured notes indenture as a Guarantor and accede to the Intercreditor Agreement.

The Agreed Security Principles apply to the granting of guarantees and security in favor of obligations under the Senior Facilities and the Senior Secured Notes. The Agreed Security Principles include restrictions on the granting of guarantees where, among other things, such grant would be restricted by general statutory or other legal limitations or requirements, financial assistance rules, corporate benefit rules, fraudulent preference rules, “thin capitalization” rules, capital maintenance rules, retention of title claims and similar matters, or where the time and cost of granting the guarantee would be disproportionate to the benefit accruing to the Holders.

Each Senior Secured Notes Guarantee is, or will be, limited to the maximum amount that would not render the Guarantor’s obligations subject to avoidance under applicable fraudulent conveyance provisions of the U.S. Bankruptcy Code or any comparable provision of foreign or state law, or as otherwise required under the Agreed Security Principles, to comply with corporate benefit, financial assistance and other laws. By virtue of this limitation, a Guarantor’s obligation under its Senior Secured Notes Guarantee could be significantly less than amounts payable with respect to the Senior Secured Notes, or a Guarantor may have

effectively no obligation under its Senior Secured Notes Guarantee. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—Corporate benefit, financial assistance laws, capital maintenance and other limitations on the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral may adversely affect the validity and enforceability of the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral*” and “*—The insolvency laws of Germany and other applicable jurisdictions may not be as favorable to you as the insolvency laws of the United States or those of another jurisdiction with which you are familiar; other limitations on the Senior Secured Notes Guarantees and the Security Interests, including fraudulent conveyance statutes, may adversely affect their validity and enforceability.*”

A portion of the operations of the Issuer will be conducted through Subsidiaries that are not expected to become Guarantors, including Subsidiaries exempt from becoming Guarantors or having security granted over their shares or assets under the Agreed Security Principles, such as those Subsidiaries organized in Russia, Serbia and Vietnam. Claims of creditors of non-Guarantor Restricted Subsidiaries, including trade creditors and creditors holding debt and guarantees issued by those Restricted Subsidiaries, and claims of preferred stockholders (if any) of those Restricted Subsidiaries and minority stockholders of Subsidiaries of non-Guarantor Restricted Subsidiaries (if any) generally will have priority with respect to the assets and earnings of those Restricted Subsidiaries over the claims of creditors of the Issuer and the Guarantors, including Holders. The Senior Secured Notes and each Senior Secured Notes Guarantee therefore will be structurally subordinated to creditors (including trade creditors) and preferred stockholders (if any) of the Issuer’s Restricted Subsidiaries (other than the Guarantors) and minority stockholders of Subsidiaries of non-Guarantor Restricted Subsidiaries (if any).

For the twelve months ended September 30, 2019, the Senior Secured Notes Guarantors accounted for 19% of the consolidated sales and 40% of the consolidated EBITDA of the Target Group. In addition, as of September 30, 2019, the Senior Secured Notes Guarantors accounted for 44% of the consolidated assets of the Target Group. As of September 30, 2019, after giving *pro forma* effect to the Transactions, the Issuer’s Subsidiaries organized in Serbia would have had €35.4 million in third party financial Indebtedness (excluding finance leases). Although the Senior Secured Notes Indenture limits the Incurrence of Indebtedness and the issuance of Disqualified Stock of the Issuer and Preferred Stock of Restricted Subsidiaries, the limitation is subject to a number of significant exceptions. Moreover, the Senior Secured Notes Indenture does not impose any limitation on the Incurrence by Restricted Subsidiaries of liabilities that are not considered Indebtedness, Disqualified Stock or Preferred Stock under the Senior Secured Notes Indenture. See “*Certain Covenants—Limitation on Indebtedness*” and “*Certain Definitions—Indebtedness.*”

#### ***Senior Secured Notes Guarantee Release***

The Senior Secured Notes Guarantee of a Guarantor will terminate and be released:

- upon a sale, exchange, transfer or other disposition (including by way of consolidation, merger, or amalgamation) of any Capital Stock of the relevant Guarantor (whether by direct sale or sale of a holding company of such Guarantor) as a result of which such Guarantor would no longer be a Restricted Subsidiary, or the sale or disposition of all or substantially all the assets of the Guarantor (other than to the Issuer or a Restricted Subsidiary), in each case if such sale, exchange, transfer or other disposition does not violate the Senior Secured Notes Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement;
- upon the designation in accordance with the Senior Secured Notes Indenture of the Guarantor as an Unrestricted Subsidiary;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Senior Secured Notes in accordance with the Senior Secured Notes Indenture, as provided in “*Defeasance*” and “*Satisfaction and Discharge*”;
- pursuant to the provisions of the Intercreditor Agreement or any Additional Intercreditor Agreement;
- as described under “*Amendments and Waivers*”;
- as described in the second paragraph of the covenant described below under “*Certain Covenants—Additional Guarantees*”;
- upon payment in full of principal and interest and all other obligations on the Senior Secured Notes; or

- as a result of a transaction permitted by “*Merger and Consolidation.*”

The Trustee shall, subject to receipt of certain documentation requested pursuant to the Senior Secured Notes Indenture, take all necessary actions at the reasonable request and cost of the Issuer, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, to effectuate any release of a Senior Secured Notes Guarantee in accordance with these provisions, subject to customary protections and indemnifications. Each of the releases set forth above shall be effected by the Trustee without the consent of the Holders and will not require any other action or consent on the part of the Trustee.

## Security

### *General*

The Senior Secured Notes and the Senior Secured Notes Guarantees in respect thereof have been, or will be, secured on a first-priority basis by Security Interests in:

- a pledge of the shares in the Issuer, a security assignment of any structural intercompany receivables owed by the Issuer to the Company and a pledge of the material bank accounts of the Issuer;
- a pledge of the shares in German Holdco, a security assignment of any structural intercompany receivables owed by German Holdco to the Issuer and a pledge of the material bank accounts of German Holdco;
- a pledge of the shares in STADA acquired by the Issuer or German Holdco and a security assignment of any structural intercompany receivables owed by any material company to the Issuer or German Holdco;
- a security assignment of any structural intercompany receivables owed to the Issuer by any material subsidiary (as defined in the Senior Facilities Agreement); and
- pledges of the shares in each Senior Secured Notes Guarantor and Laboratorio STADA, S.L.U. and material bank accounts of each Senior Secured Notes Guarantor,

(collectively, and together with any and all other assets from time to time in which a Security Interest has been or will be granted pursuant to any Senior Secured Security Document to secure the obligations under the Senior Secured Notes Indenture, the Senior Secured Notes and/or any Senior Secured Notes Guarantee, the “*Collateral*”).

The Collateral also secures the Senior Facilities and certain Hedging Obligations on a first-priority basis. The Senior Notes are secured on a second-priority basis by Security Interests in a pledge of the shares in the Issuer and a security assignment of any structural intercompany receivables owed by the Issuer to the Company. The Security Interests in the Collateral have been, or will be, granted to the Security Agent on behalf of and for the benefit of the Holders pursuant to the Senior Secured Security Documents. On each of the New Issue Date and the Temporary Notes Exchange Date, the Security Interests in the Collateral will be reaffirmed pursuant to customary confirmation agreements in favor of or granted under Senior Secured Notes Security Documents and, as a result, will extend to the liabilities under the Tap Notes.

Subject to certain conditions, including compliance with the covenants described under “*Certain Covenants—Impairment of Security Interest*” and “*Certain Covenants—Limitation on Liens,*” the Issuer and the Restricted Subsidiaries will be permitted to grant security over the Collateral in connection with future issuances of Indebtedness or Indebtedness of the Restricted Subsidiaries, including, subject to certain requirements described herein, Additional Senior Secured Notes, as permitted under the Senior Secured Notes Indenture and the Intercreditor Agreement. In addition, the Revolving Credit Facility may be re-designated as a “super senior” obligation under the Intercreditor Agreement, and following such re-designation, Holders will only receive proceeds from the enforcement of the Collateral after the obligations thereunder (and certain super senior hedging obligations) have been paid in full. See “*Description of Certain Financing Arrangements—Intercreditor Agreement*” and “*Certain Definitions—Permitted Collateral Liens.*”

The Collateral has been pledged pursuant to the Senior Secured Security Documents to the Security Agent on behalf of the Holders and holders of the other secured obligations that are secured by the Collateral. Any other assets subject to Security Interests that may in the future be granted to secure obligations under the Senior Secured Notes, any Senior Secured Notes Guarantees and the Senior Secured Notes Indenture would also constitute “*Collateral.*” All Collateral will be subject to the limitations that are applicable to

Senior Secured Notes Guarantees granted by the same entity, the operation of the Agreed Security Principles and any Permitted Collateral Liens.

The Liens on the Collateral will be limited as necessary to recognize certain limitations arising under or imposed by local law and defenses generally available to providers of Collateral (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose or benefit, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law. For a brief description of such limitations, see “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.*”

Notwithstanding the foregoing and the provisions of the covenant described below under “*Certain Covenants—Limitation on Liens,*” certain property, rights and assets may not be pledged, and any pledge over property, rights and assets may be limited (or the Liens not perfected), in accordance with the Agreed Security Principles. The following is a non-exhaustive summary of certain terms of the Agreed Security Principles, which include, among others:

- general legal and statutory limitations, regulatory restrictions, financial assistance, corporate benefit, fraudulent preference, equitable subordination, “transfer pricing,” “thin capitalization,” “earnings stripping,” “controlled foreign corporation” and other tax restrictions, “exchange control restrictions,” “capital maintenance” rules and “liquidity impairment” rules, retention of title claims, employee consultation or approval requirements and similar principles may limit the ability of the Issuer and the Restricted Subsidiaries (collectively, the “Group”) to provide a guarantee or security or may require that the guarantee or security be limited as to amount or otherwise and, if so, the guarantee or security will be limited accordingly; *provided that*, to the extent requested by the Security Agent before signing any applicable security or accession document, the relevant member of the Group shall use reasonable endeavors (but without incurring material cost and without adverse impact on relationships with third parties) to overcome any such obstacle or otherwise such guarantee or security document shall be subject to such limit;
- the determination that the time and cost (including adverse effects on taxes, interest deductibility, stamp duty, registration taxes, notarial costs and all applicable legal fees) related to granting the relevant guarantee and/or security (including in respect of the security, the extent of its perfection and/or registration) will not be disproportionate to the benefit accruing to the relevant secured parties of obtaining such guarantee or security;
- the exclusion from any guarantee or security of any asset subject to a legal requirement, contract, lease, license, instrument or other third party arrangement, which may prevent or condition the asset from being charged, secured or being subject to the applicable security document (including requiring a consent of any third party, supervisory board or works council (or equivalent)) and any asset which, if subject to the applicable security document, would give a third party the right to terminate or otherwise amend any rights, benefits and/or obligations with respect to any member of the Group in respect of the asset or require the relevant charger to take any action materially adverse to the interests of the Group or any member thereof; *provided that* reasonable endeavors (exercised for a specified period of time) to obtain consent to charging any asset (where otherwise prohibited) shall be used by the Group if the Security Agent specifies prior to the date of the security or accession document that the asset is material and the Issuer is satisfied that such endeavors will not involve placing relationships with third parties in jeopardy;
- the agreement that members of the Group will not be required to give guarantees or enter into security documents if they are not wholly owned by another member of the Group or if it is not within the legal capacity of the relevant members of the Group or if it would conflict with the fiduciary or statutory duties of their directors or contravene any applicable legal, regulatory or contractual prohibition or restriction or have the potential to result in a material risk of personal or criminal liability for any director or officer of or for any member of the Group, *provided that*, to the extent requested by the Security Agent before signing any applicable security document or accession document, the relevant member of the Group shall use reasonable endeavors (but without incurring material cost and without adverse impact on relationships with third parties) to overcome any such obstacle or otherwise such guarantee or security document shall be subject to such limit;
- the requirement that, to the extent legally effective, all security shall be given in favor of the Security Agent and not the secured creditors individually (with the Security Agent to hold one set of security



documents for all the secured creditors); *provided* that it shall be permissible to use “*parallel debt*” provisions where necessary (which shall be included in the Intercreditor Agreement and not the individual security documents); and furthermore, the agreement that no member of the Group shall be required to take any action in relation to any guarantees or security as a result of any assignment or transfer of the Senior Secured Notes by a Holder;

- the limitation of guarantees and security so that the aggregate of notarial costs and all registration and like taxes and duties relating to the provision of security will not exceed an amount to be agreed between the Issuer and the Security Agent, and the agreement that where a class of assets to be secured includes material and immaterial assets, if the cost of granting security over the immaterial assets is disproportionate to the benefit of such security, security will be granted over the material assets only;
- the agreement that security will not be required over any assets subject to security in favor of a third party or any cash constituting regulatory capital or customer cash (and such assets or cash shall be excluded from any relevant security document);
- the agreement it may be either impossible or impractical to create security over certain categories of assets in which event security will not be taken over such assets;
- the agreement that no security may be provided on terms which are inconsistent with the turnover or sharing provisions in the Intercreditor Agreement and guarantees and that security will not be required from or over the assets of, any joint venture or similar arrangement, any minority interest or any member of the Group that is not wholly owned by another member of the Group;
- that agreement that the giving of a guarantee, the granting of security and the registration and/or the perfection of the security granted will not be required if it would have a material adverse effect on the ability of the relevant member of the Group to conduct its operations and business in the ordinary course as otherwise permitted by the Senior Secured Notes Indenture and the Intercreditor Agreement (including dealing with the secured assets and all contractual counterparties or amending, waiving or terminating (or allowing to lapse) any rights, benefits or obligations, in each case prior to an Event of Default which is continuing), and the agreement that any requirement under the Agreed Security Principles to seek consent of any person or take or not take any other action shall be subject to the Agreed Security Principles; and
- the agreement that other than a general security agreement and related filing, no perfection, filing or other action will be required with respect to assets of a type not owned by members of the Group or in Russia, Serbia or Vietnam (the “*Excluded Jurisdictions*”) or otherwise over the shares of a member of the Group located in an Excluded Jurisdiction.

As described above, all of the Collateral also secures the liabilities under the Senior Facilities as well as certain Hedging Obligations and any Additional Senior Secured Notes and may also secure certain future Indebtedness. The proceeds from the enforcement of the Collateral may not be sufficient to satisfy the obligations owed to the Holders.

No appraisals of the Collateral have been made in connection with any offering of Senior Secured Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—The value of the Senior Secured Notes Collateral securing the Senior Secured Notes may not be sufficient to satisfy our obligations under the Senior Secured Notes and such collateral may be reduced or diluted under certain circumstances.*”

### ***Priority***

The relative priority with regard to the security interests in the Collateral that are created by the Senior Secured Security Documents (the “*Security Interests*” and each, a “*Security Interest*”) as between (a) the lenders under the Senior Facilities, (b) the counterparties under certain Hedging Obligations, (c) the Trustee, the Security Agent and the Holders under the Senior Secured Notes Indenture, (d) the trustee, the security agent and the holders of the Senior Notes under the Senior Notes Indenture and (e) the creditors of certain other Indebtedness (including Indebtedness that may be Incurred in the future) permitted to be secured by such Collateral, respectively, has been established by the terms of the Intercreditor Agreement, which provides, among other things, that the obligations under the Senior Facilities, certain Hedging Obligations and the Senior Secured Notes are secured equally and ratably by



first-ranking Security Interests. In addition, the Revolving Credit Facility may be re-designated as a “super senior” obligation under the Intercreditor Agreement, and following such re-designation, Holders will only receive proceeds from the enforcement of the Collateral after the obligations thereunder (and certain super senior hedging obligations) have been paid in full. The obligations under the Senior Notes Guarantees shall rank in right of priority and payment after liabilities owed, among others, under the Senior Facilities, certain Hedging Obligations secured by the Collateral and the Senior Secured Notes, and obligations under the Senior Notes Guarantees will be postponed and subordinated to, among others, obligations under the Senior Facilities, certain Hedging Obligations and the Senior Secured Notes and the Senior Secured Notes Guarantees. See “*Description of Certain Financing Arrangements—Intercreditor Agreement*” and “*Certain Definitions—Permitted Collateral Liens*.”

### ***Senior Secured Security Documents***

Under the Senior Secured Security Documents, the Issuer, the Company and the Guarantors have granted security over the Collateral to secure the payment when due of the Issuer’s and the Guarantors’ payment obligations under the Senior Secured Notes, the Senior Secured Notes Guarantees and the Senior Secured Notes Indenture. The Senior Secured Security Documents have been, or will be, entered into by the relevant security provider and the Security Agent as agent for the secured parties. When entering into such Senior Secured Security Documents, the Security Agent acts in its own name, but for the benefit of the secured parties (including itself, the Trustee and the Holders of Senior Secured Notes from time to time). Under the Intercreditor Agreement, the Security Agent also acts as an agent of the lenders under the Senior Notes, the Senior Facilities and the counterparties under certain Hedging Obligations in relation to the Security Interests created in favor of such parties. On each of the New Issue Date and the Temporary Notes Exchange Date, the Security Interests in the Collateral will be reaffirmed pursuant to customary confirmation agreements in favor of or granted under Senior Secured Notes Security Documents and, as a result, will extend to the liabilities under the Tap Notes.

In certain jurisdictions, due to the laws and other jurisprudence governing the creation and perfection of Security Interests, the relevant Senior Secured Security Documents secures, or will secure, “*parallel debt*” obligations created under the Intercreditor Agreement in favor of the Security Agent (and not the obligations under the Senior Secured Notes and the Senior Secured Notes Guarantees). The parallel debt construct has not been fully tested under law in certain of these jurisdictions. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—The security interests in the Senior Secured Notes Collateral have been, or will be, granted to the Security Agent rather than directly to the holders of the Senior Secured Notes. The ability of the Security Agent to enforce the Senior Secured Notes Collateral may be restricted by local law.*”

The Senior Secured Notes Indenture and the Intercreditor Agreement provide that, to the extent permitted by applicable law, only the Security Agent will have the right to enforce the Senior Secured Security Documents on behalf of the Trustee and the Holders. As a consequence of such contractual provisions, Holders will not be entitled to take enforcement action in respect of the Collateral, except through the Trustee under the Senior Secured Notes Indenture, who will (subject to the provisions of the Senior Secured Notes Indenture) provide instructions to the Security Agent for the Collateral (as applicable).

The Senior Secured Notes Indenture provides that, subject to the terms thereof and of the Senior Secured Security Documents and the Intercreditor Agreement, the Senior Secured Notes and the Senior Secured Notes Indenture, as applicable, will be secured by Security Interests in the Collateral until all obligations under the Senior Secured Notes and the Senior Secured Notes Indenture have been discharged. However, the Security Interests with respect to the Senior Secured Notes and the Senior Secured Notes Indenture may be released under certain circumstances as provided under “*Security—Release of Liens*.”

In the event that the Issuer or its Subsidiaries enter into insolvency, bankruptcy or similar proceedings, the Security Interests created under the Senior Secured Security Documents or the rights and obligations enumerated in the Intercreditor Agreement could be subject to potential challenges. If any challenge to the validity of the Security Interests or the terms of the Intercreditor Agreement was successful, the Holders may not be able to recover any amounts under the Senior Secured Security Documents. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—The granting of the Senior Secured Notes Guarantees and security interests in connection with the issuance of the Senior Secured Notes, or the incurrence of permitted debt in the future, may create or restart hardening or voidance periods for such security interests in accordance with the laws applicable in certain jurisdictions.*”

### ***Enforcement of Security Interest***

The Senior Secured Notes Indenture and the Intercreditor Agreement restrict the ability of the Holders or the Trustee to enforce the Security Interests and provide for the release of the Security Interests created by the Senior Secured Security Documents in certain circumstances upon enforcement by the Security Agent in accordance with the terms of the Intercreditor Agreement. These limitations are described under “*Description of Certain Financing Arrangements—Intercreditor Agreement*” and “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests*.” The ability to enforce may also be restricted by similar arrangements in relation to future Indebtedness that is secured on the Collateral in compliance with the Senior Secured Notes Indenture and the Intercreditor Agreement.

The creditors under the Senior Facilities, the counterparties to Hedging Obligations secured by the Collateral and the Trustee have and, by accepting a Senior Secured Note, each Holder is deemed to have, appointed the Security Agent to act as its agent under the Intercreditor Agreement and the Senior Secured Security Documents securing such Indebtedness.

### ***Intercreditor Agreement; Additional Intercreditor Agreements; Agreement to be Bound***

The Senior Secured Notes Indenture provides that each Holder, by accepting such Senior Secured Note, is deemed (without any further consent of the Holders) to have:

- (1) appointed and authorized the Security Agent and the Trustee to give effect to the provisions in the Intercreditor Agreement, any Additional Intercreditor Agreements and the Senior Secured Security Documents and perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Intercreditor Agreement and the Senior Secured Security Documents securing such Indebtedness, together with any other incidental rights, power and discretions;
- (2) agreed to be bound by the provisions of the Intercreditor Agreement, any Additional Intercreditor Agreements and the Senior Secured Security Documents; and
- (3) irrevocably appointed the Security Agent and the Trustee to act on its behalf to enter into and comply with the provisions of the Intercreditor Agreement, any Additional Intercreditor Agreements and the Senior Secured Security Documents (including the execution of, and compliance with, any waiver, modification, amendment, renewal or replacement expressed to be executed by the Trustee or the Security Agent on its behalf).

See the section entitled “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—The security interests in the Senior Secured Notes Collateral have been, or will be, granted to the Security Agent rather than directly to the holders of the Senior Secured Notes. The ability of the Security Agent to enforce the Senior Secured Notes Collateral may be restricted by local law.*”

Similar provisions to those described above may be included in any Additional Intercreditor Agreement (as defined below) entered into in compliance with the covenant described under “*Certain Covenants—Additional Intercreditor Agreements.*”

### ***Release of Liens***

Release of the Security Interests in respect of the Collateral will be permitted under any one or more of the following circumstances:

- (1) in connection with any sale or other disposition of Collateral to (a) a Person that is not the Issuer or a Restricted Subsidiary (but excluding any transaction subject to “*Merger and Consolidation*”), if such sale or other disposition does not violate the covenant described under “*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*” and is otherwise not prohibited by the Senior Secured Notes Indenture or (b) any Restricted Subsidiary; *provided* that this clause 1(b) shall not be relied upon in the case of a transfer of Capital Stock or of accounts receivable (including intercompany loan receivables and hedging receivables) to a Restricted Subsidiary (except to a Securitization Subsidiary) unless the relevant property and assets remain subject to, or otherwise become subject to, a Lien in favor of the Senior Secured Notes following such sale or disposal;
- (2) in the case of a Guarantor that is released from its Senior Secured Notes Guarantee pursuant to the terms of the Senior Secured Notes Indenture, the release of the property and assets, and Capital Stock, of such Guarantor;

- (3) as described under “*Amendments and Waivers*”;
- (4) upon payment in full of principal, interest and all other obligations on the Senior Secured Notes or legal defeasance, covenant defeasance or satisfaction and discharge of the Senior Secured Notes, as provided in “*Defeasance*” and “*Satisfaction and Discharge*”;
- (5) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Senior Secured Notes Indenture, the release of the property and assets, and Capital Stock, of such Unrestricted Subsidiary; or
- (6) as otherwise permitted in accordance with the Senior Secured Notes Indenture.

In addition, the Security Interests created by the Senior Secured Security Documents will be released (a) in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement and (b) as may be permitted by the covenant described under “*Certain Covenants—Impairment of Security Interest*.”

The Security Agent and the Trustee (but only if required) will take all necessary action reasonably requested by, and at the cost of, the Issuer to effectuate any release of Collateral securing the Senior Secured Notes and the Senior Secured Notes Guarantees, in accordance with the provisions of the Senior Secured Notes Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Senior Secured Security Document. Each of the releases set forth above shall be effected by the Security Agent without the consent of the Holders or any action on the part of the Trustee (unless action is required by it to effect such release). The Security Agent and the Trustee shall be entitled to request and rely solely upon an Officer’s Certificate and Opinion of Counsel, each certifying which circumstance, as described above, giving rise to a release of the Security Interests has occurred, and that such release complies with the Senior Secured Notes Indenture.

### **Transfer and Exchange**

The Senior Secured Notes have been, or will be, issued in the form of several registered notes in global form without interest coupons attached, as follows:

- the Original Senior Secured Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act are currently, and the Tap Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be, represented by one or more global notes in registered form without interest coupons attached (the “*Existing 144A Global Notes*” and the “*New 144A Global Notes*,” respectively, and together, the “*144A Global Notes*”). The Existing 144A Global Notes were, on the Original Issue Date, and the New 144A Global Notes will be, on the New Issue Date (in the case of the Walmark Tap Notes) or the Temporary Notes Exchange Date (in the case of the Takeda Tap Notes), deposited with and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream; and
- the Original Senior Secured Notes sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act are, and the Tap Notes sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act will initially be, represented by one or more global notes in registered form without interest coupons attached (the “*Existing Regulation S Global Notes*” and the “*New Regulation S Global Notes*,” respectively, and, together with the 144A Global Notes, the “*Global Notes*”) and, in the case of the Tap Notes, with temporary ISIN and common code numbers which are different from the ISIN and common code numbers for the Existing Senior Secured Notes issued on the Original Issue Date. The Existing Regulation S Global Notes were, on the Original Issue Date, and the New Regulation S Global Notes will be, on the New Issue Date (in the case of the Walmark Tap Notes) or the Temporary Notes Exchange Date (in the case of the Takeda Tap Notes), deposited with and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

During the 40-day “distribution compliance period” (as such term is defined in Rule 902 of Regulation S under the Securities Act), which will commence on the New Issue Date with respect to both the Walmark Tap Notes and the Takeda Tap Notes, Book-Entry Interests (as defined below) in the New Regulation S Global Notes may be transferred only to non-U.S. Persons under Regulation S or to persons whom the transferor reasonably believes are “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act in a transaction meeting the requirements of Rule 144A or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any

other jurisdiction. During this 40-day distribution compliance period, (i) the New Regulation S Global Notes representing the Walmark Tap Notes will have a temporary ISIN and common code, (ii) if the Temporary Notes Exchange Date occurs during the 40-day distribution compliance period, the Takeda Temporary Regulation S Global Notes will be exchanged for New Regulation S Global Notes with the same temporary ISIN and common code as the New Regulation S Global Notes representing the Walmark Tap Notes referred to in clause (i) above, and (iii) if the Temporary Notes Exchange Date occurs after the 40-day distribution compliance period, the Takeda Temporary Regulation S Global Notes will be exchanged for New Regulation S Global Notes with the same ISIN and common code as the Existing Regulation S Global Notes. After the 40-day distribution compliance period ends, the ISINs and common codes for Book-Entry Interests in the New Regulation S Global Notes representing the Walmark Tap Notes (and any Takeda Tap Notes issued during the 40-day distribution compliance period) will automatically convert into the same ISINs and common codes as the Existing Regulation S Global Notes. On the Temporary Notes Exchange Date, the Takeda Temporary 144A Global Notes will be exchanged for New 144A Global Notes representing the Takeda Tap Notes, with the same ISIN and common code as the Existing 144A Global Notes. See “*Book-Entry, Delivery and Form*” and “*Transfer Restrictions*” for restrictions on the transfer of the Additional Notes.

Ownership of interests in the Global Senior Secured Notes (“*Book-Entry Interests*”) will be limited to persons that have accounts with Euroclear and Clearstream or persons that may hold interests through such participants.

Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under “*Transfer Restrictions*.” In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear and Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream and their respective participants.

Book-Entry Interests in the 144A Global Senior Secured Notes (the “*144A Book-Entry Interests*”) may be transferred to a Person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Senior Secured Notes (the “*Regulation S Book-Entry Interests*”) denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the Senior Secured Notes Indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Senior Secured Note from which it was transferred and will become a Book-Entry Interest in the Global Senior Secured Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Senior Secured Note to which it was transferred.

If Definitive Registered Senior Secured Notes are issued, they will be issued only in minimum denominations of €100,000, and integral multiples of €1,000 in excess thereof, upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Senior Secured Notes Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant which owns the relevant Book-Entry Interests. Definitive Registered Senior Secured Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Senior Secured Notes Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under “*Transfer Restrictions*.”

Subject to the restrictions on transfer referred to above, Senior Secured Notes issued as Definitive Registered Senior Secured Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. In connection with any such transfer or exchange, the Senior Secured Notes Indenture requires the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear or Clearstream, where appropriate, to furnish certain certificates and opinions, and to pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer.



The Issuer, the Trustee, the Security Agent, the Paying Agents, the Transfer Agent and the Registrar will be entitled to treat the registered Holder of a Senior Secured Note as the owner thereof for all purposes.

### **Restricted Subsidiaries and Unrestricted Subsidiaries**

On both the Original Issue Date and the date of this offering memorandum, all of the Issuer's Subsidiaries are Restricted Subsidiaries. However, in the circumstances described below under "*Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries*," the Issuer is permitted to designate Restricted Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Senior Secured Notes Indenture.

### **Proceeds Loan**

On August 21, 2017, the Company, as lender, and the Issuer, as borrower, entered into a loan agreement pursuant to which the Company, as lender, loaned to the Issuer, as borrower, the gross proceeds of the 2017 Senior Notes (the "*Original Proceeds Loan*"). On November 27, 2018, the Company, as lender, and the Issuer, as borrower, have entered into a new proceeds loan agreement under which the proceeds of the 2018 Senior Notes were loaned to the Issuer (the "*2018 Proceeds Loan*" and, together with the Original Proceeds Loan, the "*Proceeds Loans*").

The Proceeds Loans are denominated in Euros in a principal amount equal to the net proceeds of the applicable series of Senior Notes. The Proceeds Loan Agreement requires the Issuer to make all payments thereunder on a timely basis in order to ensure that the Company can satisfy its payment obligations under the Senior Notes, including as to interest, principal, additional amounts, if any, and other required payments due under the Senior Notes. All amounts payable under the Proceeds Loan Agreement are payable to such account or accounts with such person or persons as the Company may designate. The maturity date of the Proceeds Loan is the same maturity date as the maturity date of the Senior Notes. The Proceeds Loan is an unsecured obligation of the Issuer, and is contractually subordinated to the obligations of the Issuer under the Senior Secured Notes and the Senior Facilities pursuant to the terms of the Intercreditor Agreement. The receivables under the Proceeds Loan have been assigned by way of security, on a first-ranking basis, to the Security Agent for the benefit of Holders and the Senior Facilities and certain Hedging Obligations, and, on a second-ranking basis, to the Security Agent for the benefit of holders of the Senior Notes.

### **Optional Redemption**

Except as set forth below, and except as described under "*Redemption for Taxation Reasons*," the Senior Secured Notes are not redeemable at the option of the Issuer.

At any time prior to September 30, 2020, the Issuer may redeem the Senior Secured Notes, in whole or in part, at its option, upon notice as described under "*Selection and Notice*," at a redemption price equal to 100% of the principal amount of such Senior Secured Notes plus the Applicable Premium as of, and accrued and unpaid interest and Additional Amounts, if any, to, but excluding, the redemption date.

At any time and from time to time prior to September 30, 2020, the Issuer may, at its option, during each calendar year redeem up to 10% of the original principal amount of the Senior Secured Notes (including the original principal amount of any Additional Senior Secured Notes), upon giving notice as described under "*Selection and Notice*," at a redemption price equal to 103.000% of the principal amount of the Senior Secured Notes so redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to but excluding the redemption date.

At any time and from time to time prior to September 30, 2020, the Issuer may, at its option, redeem Senior Secured Notes, upon notice as described under "*Selection and Notice*," with the Net Cash Proceeds received by the Issuer from any Equity Offering at a redemption price equal to 103.500% of the principal amount of the Senior Secured Notes so redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to but excluding the redemption date in an aggregate principal amount for all such redemptions not to exceed 40% of the original aggregate principal amount of the Senior Secured Notes (including any Additional Senior Secured Notes); *provided that*:

- (1) in each case the redemption takes place not later than 180 days after the closing of the related Equity Offering; and



- (2) not less than 50% of the original aggregate principal amount of the Senior Secured Notes (including Additional Senior Secured Notes) issued under the Senior Secured Notes Indenture remains outstanding immediately thereafter (excluding Senior Secured Notes held by the Issuer or any of the Restricted Subsidiaries).

At any time and from time to time on or after September 30, 2020, the Issuer may redeem the Senior Secured Notes, in whole or in part, upon notice as described under “*Selection and Notice*,” at a redemption price equal to the percentage of principal amount of the Senior Secured Notes so redeemed set forth below plus accrued and unpaid interest, if any, on the Senior Secured Notes redeemed, to, but excluding, the applicable redemption date and Additional Amounts, if any, if redeemed during the twelve-month period beginning on September 30, of the year indicated below:

<u>Year</u>	<u>Redemption Price</u>
2020 .....	101.750%
2021 .....	100.875%
2022, and thereafter .....	100.000%

#### ***Other Redemption Terms***

Notwithstanding the foregoing, in connection with any tender offer for the Senior Secured Notes, including a Change of Control Offer (as defined below) or Asset Disposition Offer (as defined below), if Holders of Senior Secured Notes of not less than 90% in aggregate principal amount of the applicable outstanding Senior Secured Notes validly tender and do not withdraw such Senior Secured Notes in such tender offer and the Issuer, or any third party making such a tender offer in lieu of the Issuer, purchases, all of the Senior Secured Notes validly tendered and not withdrawn by such Holders, the Issuer or such third party will have the right upon not less than 10 nor more than 60 days’ prior notice, given not more than 30 days following such tender offer expiration date, to redeem the Senior Secured Notes that remain outstanding in whole, but not in part following such purchase at a price equal to the price offered to each other Holder (excluding any early tender or incentive fee) in such tender offer, plus, to the extent not included in the tender offer payment, accrued and unpaid interest and Additional Amounts, if any, thereon, to, but excluding, such redemption date.

Subject to the provisions of the Intercreditor Agreement or any Additional Intercreditor Agreement, the Issuer and its Subsidiaries may repurchase the Senior Secured Notes at any time and from time to time in the open market or otherwise.

Notice of redemption will be provided as set forth under “*Selection and Notice*” below.

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Senior Secured Notes or portions thereof called for redemption on the applicable redemption date.

#### **Mandatory Redemption or Sinking Fund**

The Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Senior Secured Notes. However, under certain circumstances, the Issuer may be required to offer to purchase Senior Secured Notes as described under “*Change of Control*” and “*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*.”

#### **Selection and Notice**

If less than all of any series of the Senior Secured Notes are to be redeemed at any time, the Paying Agent or Registrar will select the Senior Secured Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which the Senior Secured Notes are listed, as certified to the Paying Agent or Registrar by the Issuer, and in compliance with the requirements of Euroclear and Clearstream, or if the Senior Secured Notes are not so listed or such exchange prescribes no method of selection and the Senior Secured Notes are not held through Euroclear and Clearstream or Euroclear and Clearstream prescribe no method of selection, on a *pro rata* basis, subject to adjustments so that no Senior Secured Note in an unauthorized denomination remains outstanding after such redemption; *provided, however*, that no Senior Secured Note of €100,000 in aggregate principal amount or less shall be redeemed in part and only Senior Secured Notes in integral multiples of €1,000 shall be redeemed. The Trustee, the Paying Agent and the Registrar shall not be liable for selections made under this paragraph.

Notices of redemption will be delivered electronically or mailed by first-class mail at least 10 days but not more than 60 days before the redemption date to each Holder of Senior Secured Notes to be redeemed at the address of such Holder appearing in the security register or otherwise in accordance with the applicable procedures of Euroclear and Clearstream, except that redemption notices may be delivered electronically or mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Senior Secured Notes or a satisfaction and discharge of the Senior Secured Notes Indenture.

Notice of any redemption of the Senior Secured Notes may, at the Issuer's discretion, be given prior to the completion of a transaction (including, but not limited to, an Equity Offering, an Incurrence of Indebtedness, a Change of Control or other transaction) and any redemption notice may, at the Issuer's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of a related transaction. If such redemption or purchase is so subject to satisfaction of one or more conditions precedent, such notice shall describe each such condition, and if applicable, shall state that, in the Issuer's discretion, the redemption date may be delayed until such time (but not more than 60 days after the date the notice of redemption was sent) as any or all such conditions shall be satisfied, or such redemption or purchase may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date as so delayed. In addition, the Issuer may provide in such notice that payment of the redemption price and performance of the Issuer's obligations with respect to such redemption may be performed by another Person.

If and for so long as any Senior Secured Notes are listed on the Official List of the Exchange and if and to the extent the rules of the Authority so require, the Issuer will notify the Authority of any such notice to the Holders of the relevant Senior Secured Notes and, in connection with any redemption, the Issuer will notify the Authority of any change in the principal amount of Senior Secured Notes outstanding.

If any Senior Secured Note is to be redeemed in part only, the notice of redemption that relates to that Senior Secured Note shall state the portion of the principal amount thereof to be redeemed, in which case a portion of the original Senior Secured Note will be issued in the name of the Holder thereof upon cancellation of the original Senior Secured Note. In the case of a Global Senior Secured Note, an appropriate notation will be made on such Senior Secured Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the applicable redemption notice (including any conditions contained therein), Senior Secured Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, unless the Issuer defaults in the payment of the redemption price, interest ceases to accrue on Senior Secured Notes or portions of them called for redemption.

### **Redemption for Taxation Reasons**

The Issuer may redeem the Senior Secured Notes in whole, but not in part, at any time upon giving not less than 10 nor more than 60 days' prior written notice to the Holders (which notice will be irrevocable) at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to but excluding the date fixed for redemption (a "*Tax Redemption Date*") (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts, as defined below under "*Withholding Taxes*," if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if the Issuer determines in good faith that, as a result of:

- (1) any change in, or amendment to, the law or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined below) affecting taxation; or
- (2) any amendment to, or change in an official application, administration or written interpretation of such laws, treaties, regulations or rulings (including by reason of a holding, judgment or order by a court of competent jurisdiction or a change in published administrative practice) (each of the foregoing in clauses (1) and (2), a "*Change in Tax Law*"),

a Payor (as defined below) is, or on the next interest payment date in respect of the Senior Secured Notes would be, required to pay Additional Amounts with respect to the Senior Secured Notes (but, in the case of a Guarantor, only if the payment giving rise to such requirement cannot be made by the Issuer or another Guarantor who can make such payment without the obligation to pay Additional Amounts), and such obligation cannot be avoided by taking reasonable measures available to the Payor (including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable). Such

Change in Tax Law must be publicly announced and become effective on or after the Original Issue Date (or if the applicable Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction on a date after the Original Issue Date, such later date). The foregoing provisions shall apply (a) to a Guarantor only after such time as such Guarantor is obligated to make at least one payment on the Senior Secured Notes and (b) *mutatis mutandis* to any successor Person, after such successor Person becomes a party to the Senior Secured Notes Indenture, with respect to a Change in Tax Law occurring after the time such successor Person becomes a party to the Senior Secured Notes Indenture.

Notice of redemption for taxation reasons will be published in accordance with the procedures described under “*Selection and Notice*.” Notwithstanding the foregoing, no such notice of redemption will be given earlier than 60 days prior to the earliest date on which the Payor would be obligated to make such payment of Additional Amounts. Prior to the publication or mailing of any notice of redemption of Senior Secured Notes pursuant to the foregoing, the Issuer will deliver to the Trustee (a) an Officer’s Certificate stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right to so redeem have been satisfied and that the obligation to pay Additional Amounts cannot be avoided by the relevant Payor taking reasonable measures available to it and (b) a written opinion of an independent tax counsel of recognized standing qualified under the laws of the Relevant Taxing Jurisdiction and satisfactory to the Trustee (such approval not to be unreasonably withheld) to the effect that the Payor has been or will become obligated to pay Additional Amounts as a result of a Change in Tax Law. The Trustee will accept and shall be entitled to rely conclusively on such Officer’s Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, without liability or further inquiry, in which event it will be conclusive and binding on the Holders.

### **Withholding Taxes**

All payments made by or on behalf of the Issuer or any Guarantor (including any successor entity) (each, a “Payor”) in respect of the Senior Secured Notes or with respect to any Senior Secured Notes Guarantee, as applicable, will be made free and clear of and without withholding or deduction for, or on account of, any Taxes unless the withholding or deduction of such Taxes is then required by law or by the relevant taxing authority’s interpretation or administration thereof. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of:

- (1) any jurisdiction from or through which payment on any such Senior Secured Note or Senior Secured Notes Guarantee is made or any political subdivision or governmental authority thereof or therein having the power to tax (including the jurisdiction of the Paying Agent); or
- (2) any other jurisdiction in which a Payor is incorporated or organized, engaged in business for tax purposes, or otherwise considered to be a resident for tax purposes, or any political subdivision or governmental authority thereof or therein having the power to tax (each of clause (1) and (2), a “*Relevant Taxing Jurisdiction*”),

will at any time be required by law to be made from any payments made by or on behalf of the Payor or the Paying Agent with respect to any Senior Secured Note or any Senior Secured Notes Guarantee, including (without limitation) payments of principal, redemption price, interest or premium, if any, the Payor will pay (together with such payments) such additional amounts (the “*Additional Amounts*”) as may be necessary in order that the net amounts received in respect of such payments, after such withholding or deduction (including any such withholding or deduction from such Additional Amounts), will not be less than the amounts which would have been received in respect of such payments on any such Senior Secured Note or Senior Secured Notes Guarantee in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts will be payable for or on account of:

- (1) any Taxes, to the extent such Taxes would not have been so imposed but for the existence of any present or former connection between the relevant Holder (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, or possessor of power over the relevant Holder, if the relevant Holder is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction (including, being resident for tax purposes, or being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in or place of management present in, or being physically present in, the Relevant Taxing Jurisdiction) but excluding, in each case, any connection arising solely from the acquisition, ownership or holding of such Senior Secured Note or the receipt of any payment or the exercise or enforcement of rights

under such Senior Secured Note, the Senior Secured Notes Indenture or a Senior Secured Notes Guarantee;

- (2) any Taxes, to the extent such Taxes are imposed or withheld by reason of the failure by the Holder or the beneficial owner of the Senior Secured Note to comply with a reasonable written request of the Payor addressed to the Holder or beneficial owner, after reasonable notice (at least 30 days before any such withholding or deduction would be payable), to provide certification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or such beneficial owner or to make any declaration or similar claim or satisfy any other reporting requirement relating to such matters, which is required by a law, statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from all or part of such Tax, but, in each case, only to the extent the Holder or beneficial owner is legally entitled to do so;
- (3) any Taxes, to the extent such Taxes are imposed as a result of the presentation of the Senior Secured Note for payment (where Senior Secured Notes are in the form of Definitive Registered Senior Secured Notes and presentation is required) more than 30 days after the later of the applicable payment date or the date the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Senior Secured Note been presented on the last day of such 30 day period);
- (4) any Taxes that are payable otherwise than by deduction or withholding from a payment with respect to the Senior Secured Notes or with respect to any Senior Secured Notes Guarantee;
- (5) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;
- (6) any Taxes imposed, deducted or withheld pursuant to section 1471(b) of the U.S. Internal Revenue Code or otherwise imposed pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Code, in each case, as of the Original Issue Date (and any amended or successor version that is substantively comparable), any regulations or agreements thereunder, official interpretations thereof or similar law or regulation implementing an intergovernmental agreement relating thereto; or
- (7) any combination of the items (1) through (6) above.

In addition, no Additional Amounts shall be paid with respect to a Holder who is a fiduciary or a partnership or any Person other than the beneficial owner of the Senior Secured Notes, to the extent that the beneficiary or settler with respect to such fiduciary, the member of such partnership or the beneficial owner would not have been entitled to Additional Amounts had such beneficiary, settler, member or beneficial owner held such Senior Secured Notes directly.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant tax authority in accordance with applicable law. The Payor will provide certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes, or if such tax receipts are not available, certified copies of other reasonable evidence of such payments as soon as reasonably practicable to the Trustee (with a copy to the Paying Agent). Such copies shall be made available to the Holders upon reasonable request and will be made available at the offices of the Paying Agent.

If any Payor is obligated to pay Additional Amounts with respect to any payment made on any Senior Secured Note or any Senior Secured Notes Guarantee, at least 30 days prior to the date of such payment, the Payor will deliver to the Trustee and the Paying Agent an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable and such other information necessary to enable the Paying Agent to pay Additional Amounts on the relevant payment date (unless such obligation to pay Additional Amounts arises less than 45 days prior to the relevant payment date, in which case the Payor may deliver such Officer's Certificate as promptly as practicable thereafter). The Trustee and the Paying Agent shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

Wherever in the Senior Secured Notes Indenture, the Senior Secured Notes or this "*Description of the Senior Secured Notes*" there is mentioned, in any context:

- (1) the payment of principal;
- (2) redemption prices or purchase prices in connection with a redemption or purchase of the Senior Secured Notes;



- (3) interest; or
- (4) any other amount payable on or with respect to any of the Senior Secured Notes or any Senior Secured Notes Guarantee,

such reference shall be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor will pay and reimburse each applicable Holder for any present or future stamp, issue, registration, court or documentary taxes, or similar charges or levies (including any related interest or penalties with respect thereto) or any other excise, property or similar taxes or similar charges or levies (including any related interest or penalties with respect thereto) that arise in a Relevant Taxing Jurisdiction from the execution, issuance, delivery, registration, enforcement of, or receipt of payments with respect to any Senior Secured Notes, any Senior Secured Notes Guarantee, the Senior Secured Notes Indenture, or any other document or instrument in relation thereto (other than in each case, in connection with a transfer of the Senior Secured Notes after this offering).

The foregoing obligations will survive any termination, defeasance or discharge of the Senior Secured Notes Indenture, any transfer by a Holder or beneficial owner, and will apply *mutatis mutandis* to any jurisdiction in which any successor to a Payor is incorporated or organized, engaged in business for tax purposes or otherwise resident for tax purposes, or any jurisdiction from or through which any payment under, or with respect to the Senior Secured Notes (or any Senior Secured Notes Guarantee) is made by or on behalf of such Person, or any political subdivision or taxing authority or agency thereof or therein.

### **Change of Control**

The Senior Secured Notes Indenture provides that if a Change of Control Triggering Event occurs, unless (i) a third party makes a change of control offer as described herein or (ii) the Issuer has previously or substantially concurrently therewith delivered a redemption notice with respect to all the outstanding Senior Secured Notes as described under “*Optional Redemption*,” the Issuer will make an offer to purchase all of the Senior Secured Notes (equal to €100,000 in principal amount or in integral multiples of €1,000 in excess thereof; *provided* that Senior Secured Notes of €100,000 or less in principal amount may only be redeemed in whole and not in part) pursuant to the offer described below (the “*Change of Control Offer*”) at a price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Additional Amounts, if any, to but excluding the date of repurchase. Within 60 days following any Change of Control Triggering Event, the Issuer will deliver or cause to be delivered a notice of such Change of Control Offer electronically in accordance with the applicable procedures of Euroclear and Clearstream or by first-class mail, with a copy to the Trustee, to each Holder of Senior Secured Notes at the address of such Holder appearing in the security register or otherwise in accordance with the applicable procedures of Euroclear and Clearstream, describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase the Senior Secured Notes for the specified purchase price on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is delivered, pursuant to the procedures required by the Senior Secured Notes Indenture and described in such notice, except in the case of a conditional Change of Control Offer made in advance of a Change of Control Triggering Event as described below.

To the extent that the provisions of any securities laws, rules or regulations, including Rule 14e-1 under the Exchange Act, conflict with the provisions of the Senior Secured Notes Indenture, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Senior Secured Notes Indenture by virtue thereof. The Issuer may rely on any no-action letters issued by the SEC indicating that the staff of the SEC will not recommend enforcement action in the event a tender offer satisfies certain conditions.

Except as described above with respect to a Change of Control Triggering Event, the Senior Secured Notes Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Senior Secured Notes in the event of a takeover, recapitalization or similar transaction.

The occurrence of events which would constitute a Change of Control or a Change of Control Triggering Event may constitute a default under the Senior Facilities Agreement that permits the Senior Facilities lenders to accelerate the maturity of borrowings thereunder. Future Indebtedness of the Issuer or the Restricted Subsidiaries may contain prohibitions on certain events which would constitute a Change of Control or a Change of Control Triggering Event or require such Indebtedness to be repurchased upon a



Change of Control or a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the Senior Secured Notes could cause a default under such Indebtedness, even if the Change of Control or the Change of Control Triggering Event itself does not, due to the financial effect of such repurchase on the Issuer.

The Issuer's ability to pay cash to the Holders of Senior Secured Notes following the occurrence of a Change of Control Triggering Event may be limited by its then-existing financial resources. Therefore, sufficient funds may not be available when necessary to make any required repurchases. The Change of Control Triggering Event purchase feature of the Senior Secured Notes may in certain circumstances make more difficult or discourage a sale or takeover of us and, thus, the removal of incumbent management. The Change of Control Triggering Event purchase feature is a result of negotiations between the initial purchasers of the Senior Secured Notes and us.

Subject to the limitations discussed below, the Issuer could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control Triggering Event under the Senior Secured Notes Indenture, but that could increase the amount of Indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenants described under "*Certain Covenants—Limitation on Indebtedness*" and "*Certain Covenants—Limitation on Liens*." Such restrictions in the Senior Secured Notes Indenture can be waived only with the consent of the Holders of a majority in principal amount of the Senior Secured Notes then outstanding. Except for the limitations contained in such covenants, however, the Senior Secured Notes Indenture does not contain any covenants or provisions that may afford Holders protection in the event of a highly leveraged transaction.

The Issuer will not be required to make a Change of Control Offer following a Change of Control Triggering Event if (i) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Senior Secured Notes Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Senior Secured Notes validly tendered and not withdrawn under such Change of Control Offer or (ii) a notice of redemption of all outstanding Senior Secured Notes has been given pursuant to the Senior Secured Notes Indenture as described under "*Optional Redemption*," unless and until there is a default in the payment of the redemption price on the applicable redemption date or the redemption is not consummated due to the failure of a condition precedent contained in the applicable redemption notice to be satisfied. Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control Triggering Event.

The definition of "*Change of Control*" includes a disposition of all or substantially all of the assets of the Issuer and its Subsidiaries, taken as a whole, to certain Persons. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of such phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer and its Subsidiaries, taken as a whole. As a result, it may be unclear as to whether a Change of Control Triggering Event has occurred and whether a Holder of Senior Secured Notes may require the Issuer to make an offer to repurchase the Senior Secured Notes as described above.

The provisions under the Senior Secured Notes Indenture relating to the Issuer's obligation to make an offer to repurchase the Senior Secured Notes as a result of a Change of Control Triggering Event may be waived or modified with the written consent of the Holders of a majority in principal amount of the Senior Secured Notes then outstanding.

If and for so long as the Senior Secured Notes are listed on the Official List of the Exchange and if and to the extent that the rules of the Authority so require, the Issuer will notify the Authority of any Change of Control Offer.

### **Certain Covenants**

Set forth below are summaries of certain covenants that will be contained in the Senior Secured Notes Indenture. For the avoidance of doubt, the consummation of the Transactions shall not be prohibited by the covenants below.

### ***Acknowledgment of Control Limitations***

The Control Date occurred on March 20, 2018. Prior to the Control Date: (a) to the extent the Issuer undertakes under the Senior Secured Notes Documents to procure compliance by members of the Target Group with any term of any Senior Secured Notes Documents (including, for the avoidance of doubt, in respect of the covenant described under the heading “—Reports”) or where any term of any Senior Secured Notes Document is expressed directly or indirectly to apply to a member of the Target Group, such term, undertaking or requirement was subject to all limitations and restrictions on the influence the Issuer may exercise as an indirect shareholder of the Target (or the access it has to the relevant information in its capacity as shareholder of German Holdco, as applicable) in accordance with mandatory German corporate law but without any obligation to compensate or to offer any compensation in accordance with the German Stock Corporation Act (including, but not limited to, Sections 311 *et seq.* German Stock Corporation Act) (and, for the avoidance of doubt, no breach of any such term, undertaking or requirement, and no Default or Event of Default, shall have occurred if having exercised all such influence, the relevant term, undertaking or requirement is nevertheless breached); and (b) any undertaking given directly by a member of the Target Group only applied in respect of such member of the Target Group and its Subsidiaries and shall have been given towards the Trustee and/or the Security Agent only.

### ***Suspension of Covenants on Achievement of Investment Grade Status***

Following the first day that:

- (a) the Senior Secured Notes have achieved Investment Grade Status; and
- (b) no Default or Event of Default has occurred and is continuing under the Senior Secured Notes Indenture,

then, beginning on that day and continuing until the Reversion Date (as defined below), the Issuer and the Restricted Subsidiaries will not be subject to the provisions of the Senior Secured Notes Indenture summarized under the following headings (collectively, the “*Suspended Covenants*”):

- “—*Limitation on Restricted Payments*”;
- “—*Limitation on Indebtedness*”;
- “—*Limitation on Restrictions on Distributions from Restricted Subsidiaries*”;
- “—*Limitation on Affiliate Transactions*”;
- “—*Limitation on Sales of Assets and Subsidiary Stock*”;
- “—*Additional Guarantees*”; and
- the provisions of clause (3) of the first paragraph of “*Merger and Consolidation—The Issuer*.”

If at any time the Senior Secured Notes cease to have such Investment Grade Status, then the Suspended Covenants will thereafter be reinstated as if such covenants had never been suspended (the “*Reversion Date*”) and will be applicable pursuant to the terms of the Senior Secured Notes Indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the Senior Secured Notes Indenture), unless and until the Senior Secured Notes subsequently attain Investment Grade Status (in which event the Suspended Covenants shall no longer be in effect for such time that the Senior Secured Notes maintain an Investment Grade Status); *provided, however*, that no Default, Event of Default or breach of any kind shall be deemed to exist under the Senior Secured Notes Documents with respect to the Suspended Covenants based on, and none of the Issuer or any of the Restricted Subsidiaries shall bear any liability with respect to such Suspended Covenants for, any actions taken or events occurring during the Suspension Period, or any actions taken at any time pursuant to any contractual obligation arising prior to the Reversion Date, regardless of whether such actions or events would have been permitted if the applicable Suspended Covenants remained in effect during such period. The period of time between the date of suspension of the covenants and the Reversion Date is referred to as the “*Suspension Period*.”

On the Reversion Date, all Indebtedness Incurred during the Suspension Period (other than any Indebtedness Incurred under the Senior Term Loan Facility B or the Revolving Credit Facility) will be deemed to have been outstanding on the Original Issue Date so that it is classified as permitted under clause (4)(c) of the second paragraph of “—*Limitation on Indebtedness*.” On and after the Reversion Date, all Liens created during the Suspension Period will be considered Permitted Liens pursuant to clause (11)

of such definition. Calculations made after the Reversion Date of the amount available to be made as Restricted Payments (as defined below) under “—*Limitation on Restricted Payments*” will be made as though the covenants described under “—*Limitation on Restricted Payments*” had been in effect since the Original Issue Date and prior to, but not during, the Suspension Period. Accordingly, Restricted Payments made during the Suspension Period will not reduce the amount available to be made as Restricted Payments under “—*Limitation on Restricted Payments*.” On the Reversion Date, the amount of Excess Proceeds (as defined below) shall be reset at zero. Any Affiliate Transaction entered into after the Reversion Date pursuant to an agreement entered into during any Suspension Period will be deemed to have been outstanding on the Original Issue Date, so that it is classified as permitted under clause (6) of the second paragraph under “—*Limitation on Affiliate Transactions*.” Any encumbrance or restriction on the ability of any Restricted Subsidiary to take any action described in clauses (A) through (C) of the first paragraph of “—*Limitation on Restrictions on Distributions from Restricted Subsidiaries*” that becomes effective during the Suspension Period will be deemed to have existed on the Original Issue Date, so that it is classified as permitted under clause (1) of the second paragraph under “—*Limitation on Restrictions on Distributions from Restricted Subsidiaries*.” On and after each Reversion Date, the Issuer and the Restricted Subsidiaries will be permitted to consummate the transactions contemplated by any contract entered into during the Suspension Period, so long as such contract and such consummation would have been permitted during such Suspension Period.

In addition, any future obligation to grant further Senior Secured Notes Guarantees shall be released. All such further obligation to grant Senior Secured Notes Guarantees shall be reinstated upon the Reversion Date.

There can be no assurance that the Senior Secured Notes will ever achieve or maintain Investment Grade Status.

The Trustee shall have no duty to monitor the ratings of the Senior Secured Notes, shall not be deemed to have any knowledge of the ratings of the Senior Secured Notes and shall have no duty to notify Holders if the Senior Secured Notes achieve Investment Grade Status or upon the occurrence of the Reversion Date. The Issuer shall notify the Trustee that the conditions under this covenant have been satisfied, although such notification shall not be a condition for suspension of the applicable covenants to be effective.

#### ***Limitation on Indebtedness***

The Issuer will not, and will not permit any of the Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness) and the Issuer will not issue Disqualified Stock and will not permit any of the Restricted Subsidiaries to issue Preferred Stock; *provided, however*, that the Issuer and any of the Restricted Subsidiaries may Incur Indebtedness (including Acquired Indebtedness) and the Issuer may issue Disqualified Stock and any of the Restricted Subsidiaries may issue Preferred Stock, if on the date of such Incurrence and after giving pro forma effect thereto (including pro forma application of the proceeds thereof), the Fixed Charge Coverage Ratio of the Issuer and the Restricted Subsidiaries is at least 2.00 to 1.00; *provided* that the amount of Indebtedness Incurred and the amount of Disqualified Stock or Preferred Stock issued pursuant to the foregoing shall not cause the Non-Guarantor Debt Cap to be exceeded.

The first paragraph of this covenant will not prohibit the Incurrence of the following Indebtedness (collectively, “*Permitted Debt*”):

- (1) the Incurrence by the Issuer or any of the Restricted Subsidiaries of Indebtedness under any Credit Facility (and the issuance and creation of letters of credit and bankers’ acceptances thereunder) in an aggregate principal amount at any time outstanding not to exceed the sum of:
  - (a) (i) €1,700.0 million; *plus* (ii) €400.0 million; *plus*
  - (b) an amount equal to the greater of (i) €500.0 million and (ii) 100.0% of LTM EBITDA; *plus*;
  - (c) the maximum amount of Senior Secured Indebtedness such that after giving pro forma effect to such Incurrence the Consolidated Senior Secured Net Leverage Ratio of the Issuer and the Restricted Subsidiaries do not exceed 5.00 to 1.00 (with any Indebtedness Incurred under clause (b) above on the date of determination of the Consolidated Senior Secured Net Leverage Ratio not being included in the calculation of Consolidated Senior Secured Net Leverage Ratio under this subclause (c) on such date of determination but not, for the avoidance of doubt, excluded from any such calculation made on any such subsequent date); *plus*

- (d) the maximum amount of Indebtedness that is not Senior Secured Indebtedness such that after giving pro forma effect to such Incurrence (and assuming for the purpose of such calculation that the Consolidated Senior Secured Net Leverage Ratio of the Issuer and the Restricted Subsidiaries is no less than an amount equal to the greater of the Consolidated Senior Secured Net Leverage Ratio as of such date of determination and 5.00:1.00) the Consolidated Total Net Leverage Ratio of the Issuer and the Restricted Subsidiaries does not exceed 5.70 to 1.00 (with any Indebtedness Incurred under clause (b) above on the date of determination of the Consolidated Total Net Leverage Ratio not being included in the calculation of Consolidated Total Net Leverage Ratio under this clause (d) on such date of determination but not, for the avoidance of doubt, excluded from any such calculation made on any such subsequent date),

*provided* that (i) any Indebtedness Incurred and outstanding pursuant to subclauses (a), (b) or (c) above shall be deemed to be Senior Secured Indebtedness, whether or not so secured, solely for purposes of calculating the Consolidated Senior Secured Net Leverage Ratio for subclause (c) and (ii) any Indebtedness Incurred pursuant to this clause (1) may be refinanced at any time if such refinancing does not exceed the greater of (I) the aggregate principal amount of Indebtedness permitted to be Incurred pursuant to this clause (1) on the date of such refinancing and (II) the aggregate principal amount of the Indebtedness being refinanced at such time (together with an amount necessary to pay accrued and unpaid interest and any fees and expenses, including any premium and defeasance costs, indemnity fees, discounts, premiums and other costs and expenses Incurred in connection with such refinancing) and, in the case of a refinancing of Indebtedness under the Senior Term Loan Facility B or the Revolving Credit Facility, such Indebtedness shall be treated for all purposes as Incurred pursuant to subclause (1)(a)(i) and (1)(a)(ii), respectively; *provided further* that the amount of Indebtedness Incurred and Disqualified Stock or Preferred Stock issued pursuant to clauses (1)(b), (1)(c) and (1)(d) shall not cause the Non-Guarantor Debt Cap to be exceeded;

- (2) Guarantees by the Issuer or any Restricted Subsidiary of Indebtedness or other obligations of the Issuer or any Restricted Subsidiary so long as the Incurrence of such Indebtedness or other obligations is not prohibited by the terms of the Senior Secured Notes Indenture;
- (3) Indebtedness of the Issuer owing to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer or any Restricted Subsidiary;
- (4) Indebtedness represented by (a) Indebtedness of the Target Group outstanding as of the Original Issue Date or Incurred under a facility committed and as in effect as of the Original Issue Date, in either case, in respect of factoring financings, securitizations, receivables financings or similar arrangements, (b)(i) the Senior Secured Bridge Facility and the Original Senior Secured Notes (other than any Additional Senior Secured Notes (including the Tap Notes)), including any Guarantee thereof, (ii) any Guarantees of the Senior Unsecured Bridge Facility or the Original Senior Notes (excluding Guarantees of any additional Senior Notes), (iii) the Original Proceeds Loan, and (iv) any loans pursuant to which proceeds of any Indebtedness of a Parent Entity that are lent to the Issuer, to the extent that such Indebtedness is Guaranteed by the Issuer or any Restricted Subsidiary or is otherwise considered Indebtedness of the Issuer or any Restricted Subsidiary, and such Guarantees or the Incurrence of such Indebtedness, as the case may be, as are not prohibited by the Senior Secured Notes Indenture, (c) any Indebtedness of the Target Group (other than Indebtedness Incurred pursuant to clauses (1) and (3) above) outstanding on the Original Issue Date and any Guarantees thereof after giving pro forma effect to the Transactions and the application of the proceeds therefrom (as described under “*Use of Proceeds*” in the Offering Memorandum), (d) Refinancing Indebtedness (including with respect to the Senior Secured Notes and any Guarantee thereof) Incurred in respect of any Indebtedness described in this clause (4) and clause (5)(b) of this paragraph or Incurred pursuant to the first paragraph of this covenant, and (e) other Indebtedness Incurred to finance Management Advances;
- (5) Indebtedness (x) of the Issuer or any Restricted Subsidiary Incurred or issued to finance an acquisition (including an acquisition of any assets) (“*Acquisition Debt*”) or (y) of Persons that are, or secured by any assets that are, acquired by the Issuer or any Restricted Subsidiary or merged into, amalgamated or consolidated with the Issuer or a Restricted Subsidiary in accordance with the terms of the Senior Secured Notes Indenture; *provided* that Indebtedness Incurred pursuant to this paragraph (5) is in an aggregate amount not to exceed (a) the greater of (i) €75.0 million and (ii) 15.0% of LTM EBITDA at the time of Incurrence, *plus* (b) unlimited additional Indebtedness to the extent that after giving effect to such acquisition, merger or consolidation and without giving effect



to any Indebtedness Incurred or issued pursuant to subclause (5)(a) above on the date of determination, either: (i) the Issuer would be permitted to Incur at least €1.00 of additional Indebtedness pursuant to the first paragraph or clause 1(d) of the second paragraph of this covenant and, if such Indebtedness is Senior Secured Indebtedness, the Issuer would be permitted to Incur at least €1.00 of additional Senior Secured Indebtedness pursuant to clause (1)(c) of the second paragraph of this covenant, or (ii) either the Fixed Charge Coverage Ratio of the Issuer and the Restricted Subsidiaries would not be lower, or the Consolidated Total Net Leverage Ratio of the Issuer and the Restricted Subsidiaries would not be higher, and, if such Indebtedness is Senior Secured Indebtedness, the Consolidated Senior Secured Net Leverage Ratio of the Issuer and the Restricted Subsidiaries would not be higher, in each case, than it was immediately prior to such acquisition, merger, amalgamation or consolidation; *provided* that the amount of Acquisition Debt Incurred pursuant to clause (b) shall not cause the Non-Guarantor Debt Cap to be exceeded;

- (6) Hedging Obligations (excluding Hedging Obligations entered into for speculative purposes);
- (7) Indebtedness (a) represented by Capitalized Lease Obligations, mortgage financings, Purchase Money Obligations or other financings, Incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in a Similar Business or Indebtedness otherwise Incurred to finance the purchase, lease, rental or cost of design, construction, installation or improvement of property (real or personal) or equipment that is used or useful in a Similar Business, whether through the direct purchase of assets or the Capital Stock of any Person owning such assets, and any Indebtedness which refinances, replaces or refunds such Indebtedness in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (7)(a) and then outstanding, does not exceed the greater of (i) €125.0 million and (ii) 25.0% of LTM EBITDA at the time of Incurrence, and any Refinancing Indebtedness in respect thereof (*provided* that, in each case, the Indebtedness exists on the date of such purchase, lease, rental, construction, design, installation or improvement or is created within 180 days thereafter) or (b) arising out of Sale and Leaseback Transactions;
- (8) Indebtedness in respect of (a) workers' compensation claims, old-age-part-time arrangements, self-insurance obligations, unemployment insurance (including premiums related thereto), other types of social security, pension obligations, vacation pay, health, disability or other employee benefits, customer guarantees performance, indemnity, surety, judgment, appeal, advance payment (including progress premiums), customs, value added or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by the Issuer or a Restricted Subsidiary or relating to liabilities, obligations or guarantees Incurred in the ordinary course of business or consistent with past practice; (b) the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business or consistent with past practice; *provided* that such Indebtedness is extinguished within five Business Days of Incurrence; (c) customer deposits and advance payments (including progress premiums) received in the ordinary course of business or consistent with past practice from customers for goods or services purchased in the ordinary course of business or consistent with past practice; (d) letters of credit, bankers' acceptances, warehouse receipts, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business or consistent with past practice; (e) the financing of insurance premiums, take-or-pay obligations contained in supply arrangements, any customary treasury, depository, cash management, automatic clearinghouse arrangements, overdraft protections, credit or debit card, purchase card, electronic funds transfer, cash pooling or netting or setting off arrangements or similar arrangements in the ordinary course of business or consistent with past practice; (f) Indebtedness representing (i) deferred compensation to current or former directors, officers, employees, members of management, managers and consultants of any Parent Entity, the Issuer or any of its Subsidiaries in the ordinary course of business or consistent with past practice or (ii) deferred compensation or other similar arrangements in connection with any Investment or acquisition permitted hereby; and (g) Settlement Indebtedness;
- (9) Indebtedness arising from agreements providing for guarantees, indemnification, obligations in respect of earn-outs or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of



financing such acquisition or disposition); *provided* that the maximum liability of the Issuer and the Restricted Subsidiaries in respect of all such Indebtedness in connection with a disposition shall at no time exceed the gross proceeds, including the fair market value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Issuer and the Restricted Subsidiaries in connection with such disposition;

- (10) Indebtedness in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (10) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Issuer from the issuance or sale (other than to a Restricted Subsidiary) of its Subordinated Shareholder Funding or Capital Stock or otherwise contributed to the equity (in each case, other than through the issuance of Disqualified Stock, Designated Preferred Stock, any Shareholder Contribution or an Excluded Contribution or Excluded Amounts (as defined below)) of the Issuer, in each case, subsequent to the Original Issue Date, and any Refinancing Indebtedness in respect thereof; *provided, however*, that (i) any such Net Cash Proceeds that are so received or contributed shall not increase the amount available for making Restricted Payments to the extent the Issuer and the Restricted Subsidiaries incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of incurring Indebtedness pursuant to this clause to the extent such Net Cash Proceeds or cash have been applied to make Restricted Payments;
- (11) Indebtedness of Restricted Subsidiaries that are not Guarantors and Guarantees by the Issuer or any Restricted Subsidiary of Indebtedness of joint ventures in an aggregate amount not to exceed the greater of (a) €100.0 million and (b) 20.0% of LTM EBITDA at any time outstanding, and any Refinancing Indebtedness in respect thereof; *provided* that the amount of Indebtedness Incurred and Disqualified Stock or Preferred Stock issued pursuant to this clause (11) shall not cause the Non-Guarantor Debt Cap to be exceeded;
- (12) Indebtedness consisting of promissory notes issued by the Issuer or any of the Restricted Subsidiaries to any future, present or former employee, director, contractor or consultant of the Issuer, any of its Subsidiaries or any Parent Entity (or permitted transferees, assigns, estates, or heirs of such employee, director, contractor or consultant), to finance the purchase or redemption of Capital Stock of the Issuer or any Parent Entity that is permitted by the covenant described below under “—*Limitation on Restricted Payments*”;
- (13) Indebtedness in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (13) and then outstanding, will not exceed the greater of (a) €150.0 million and (b) 30.0% of LTM EBITDA; *provided* that the amount of Indebtedness Incurred and Disqualified Stock or Preferred Stock issued pursuant to this clause (13) shall not cause the Non-Guarantor Debt Cap to be exceeded;
- (14) Indebtedness Incurred pursuant to factoring financings, securitizations, receivables financings or similar arrangements, in each case, that are either: (a) not recourse to the Issuer and the Restricted Subsidiaries other than a Securitization Subsidiary (except for Standard Securitization Undertakings); or (b) not in excess of the greater of (x) €100.0 million and (y) 20.0% of LTM EBITDA at any time outstanding;
- (15) any obligation, or guaranty of any obligation, of the Issuer or any Restricted Subsidiary to reimburse or indemnify a Person extending credit to customers of the Issuer or a Restricted Subsidiary Incurred in the ordinary course of business or consistent with past practice for all or any portion of the amounts payable by such customers to the Person extending such credit;
- (16) Indebtedness to a customer to finance the acquisition of any equipment necessary to perform services for such customer; *provided* that the terms of such Indebtedness are consistent with those entered into with respect to similar Indebtedness prior to the Original Issue Date, including that (a) the repayment of such Indebtedness is conditional upon such customer ordering a specific volume of goods and (b) such Indebtedness does not bear interest or provide for scheduled amortization or maturity;
- (17) obligations in respect of Disqualified Stock of the Issuer in an amount not to exceed €50.0 million outstanding at the time of Incurrence;
- (18) Indebtedness of the Issuer or any of the Restricted Subsidiaries arising pursuant to any Permitted Tax Restructuring;

- (19) Indebtedness consisting of local lines of credit, overdraft facilities or local working capital facilities in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (19) and then outstanding, will not exceed the greater of (a) €125.0 million and (b) 25.0% of LTM EBITDA; and
- (20) Subordinated Liabilities (as defined in the Intercreditor Agreement) in respect of amounts under intercompany loans arising pursuant to clause (b) to the proviso to clause (25) under the second paragraph of the covenant described under “—*Limitation on Restricted Payments.*”

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:

- (1) subject to clause (3) below, in the event that all or any portion of any item of Indebtedness, Disqualified Stock or Preferred Stock (or any portion thereof) meets the criteria of more than one of the categories of Permitted Debt or is entitled to be Incurred pursuant to the first paragraph of this covenant, the Issuer, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include, in any manner that complies with this covenant, the amount and type of such Indebtedness, Disqualified Stock or Preferred Stock (or any portion thereof) in the first paragraph above or one of the clauses of the second paragraph of this covenant, and Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness;
- (2) with respect to clauses (5)(a), (11) and (13) of the second paragraph of this covenant, if at any time that the Issuer would be entitled to have Incurred any then outstanding item of Indebtedness pursuant to the first paragraph of this covenant or pursuant to clause (1)(c) or (1)(d) of the second paragraph of this covenant, such item of Indebtedness shall be automatically reclassified into an item of Indebtedness Incurred pursuant to the first paragraph of this covenant or pursuant to clause (1)(c) or (1)(d) of the second paragraph of this covenant, as applicable;
- (3) all Indebtedness under the Senior Term Loan Facility B whenever Incurred and all Existing Target Debt Financing outstanding on the Original Issue Date (excluding an aggregate principal amount of Existing Target Debt Financing equal to the aggregate amount of cash and Cash Equivalents in the Target Group as of June 30, 2017 (less an amount of such cash and Cash Equivalents used by the Target Group to repay any Existing Target Debt Financing on or prior to the Original Issue Date), which aggregate principal amount of Existing Target Debt Financing will be deemed to have been Incurred pursuant to clause (4)(c) of the second paragraph of this covenant) shall be deemed to have been Incurred pursuant to clause (1)(a)(i) of the second paragraph of this covenant, and the Issuer shall not be permitted to reclassify all or any portion of such Indebtedness Incurred;
- (4) for purposes of determining compliance with this covenant, with respect to Indebtedness Incurred under a Credit Facility, re-borrowings of amounts previously repaid pursuant to “cash sweep” or “clean down” provisions or any similar provisions under a Credit Facility that provide that Indebtedness is deemed to be repaid periodically shall only be deemed for the purposes of this covenant to have been Incurred on the date such Indebtedness was first Incurred and not on the date of any subsequent re-borrowing thereof;
- (5) in the case of any Refinancing Indebtedness, when measuring the outstanding amount of such Indebtedness, such amount shall not include any amounts necessary to pay accrued and unpaid interest and any fees and expenses, including any premium and defeasance costs, indemnity fees, discounts, premiums and other costs and expenses Incurred in connection with such refinancing;
- (6) Guarantees of, or obligations in respect of letters of credit, bankers’ acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;
- (7) if obligations in respect of letters of credit, bankers’ acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to any clause of the second paragraph above or the first paragraph above and the letters of credit, bankers’ acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

- (8) the principal amount of any Disqualified Stock of the Issuer or a Restricted Subsidiary, or Preferred Stock of a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;
- (9) in the event that the Issuer or a Restricted Subsidiary enters into or increases commitments under a revolving credit facility, enters into any commitment to Incur or issue Indebtedness or commits to Incur any Lien pursuant to clause (29) of the definition of “*Permitted Liens*,” the Incurrence or issuance thereof for all purposes under the Senior Secured Notes Indenture, including without limitation for purposes of calculating the Fixed Charge Coverage Ratio, the Consolidated Senior Secured Net Leverage Ratio or the Consolidated Total Net Leverage Ratio, as applicable, or usage of clauses (1) through (20) of the preceding paragraph (if any) for borrowings and re-borrowings thereunder (and including issuance and creation of letters of credit and bankers’ acceptances thereunder) will, at the Issuer’s option, either (a) be determined on the date of such revolving credit facility or such entry into or increase in commitments (assuming that the full amount thereof has been borrowed as of such date) or other Indebtedness, Disqualified Stock or Preferred Stock, and, if such Fixed Charge Coverage Ratio, the Consolidated Senior Secured Net Leverage Ratio or the Consolidated Total Net Leverage Ratio, as applicable, test or other provision of the Senior Secured Notes Indenture is satisfied with respect thereto at such time, any borrowing or re-borrowing thereunder (and the issuance and creation of letters of credit and bankers’ acceptances thereunder) will be permitted under this covenant irrespective of the Fixed Charge Coverage Ratio, the Consolidated Senior Secured Net Leverage Ratio or the Consolidated Total Net Leverage Ratio, as applicable, or other provision of the Senior Secured Notes Indenture at the time of any borrowing or re-borrowing (or issuance or creation of letters of credit or bankers’ acceptances thereunder) (the committed amount permitted to be borrowed or reborrowed (and the issuance and creation of letters of credit and bankers’ acceptances) on a date pursuant to the operation of this clause (a) shall be the “*Reserved Indebtedness Amount*” as of such date for purposes of the Fixed Charge Coverage Ratio, the Consolidated Senior Secured Net Leverage Ratio or the Consolidated Total Net Leverage Ratio, as applicable, and, to the extent of the usage of clauses (1) through (20) of the preceding paragraph (if any), shall be deemed to be Incurred and outstanding under such clauses) or (b) be determined on the date such amount is borrowed pursuant to any such facility or increased commitment, and in each case, the Issuer may revoke such determination at any time and from time to time;
- (10) in the event that the Issuer or a Restricted Subsidiary (x) Incurs Indebtedness to finance an acquisition or (y) assumes Indebtedness of Persons that are acquired by the Issuer or any Restricted Subsidiary or merged into the Issuer or a Restricted Subsidiary in accordance with the terms of the Senior Secured Notes Indenture or (z) is subject to a Change of Control, the date of determination of the Fixed Charge Coverage Ratio, the Consolidated Senior Secured Net Leverage Ratio or the Consolidated Total Net Leverage Ratio, as applicable, shall, at the option of the Issuer, be (a) the date that a definitive agreement for such acquisition or Change of Control is entered into and the Fixed Charge Coverage Ratio, the Consolidated Senior Secured Net Leverage Ratio or the Consolidated Total Net Leverage Ratio, as applicable, shall be calculated giving pro forma effect to such acquisition, Change of Control and the other transactions to be entered into in connection therewith (including any Incurrence of Indebtedness and the use of proceeds thereof) consistent with the definition of the Fixed Charge Coverage Ratio, the Consolidated Senior Secured Net Leverage Ratio or the Consolidated Total Net Leverage Ratio, as applicable, and, for the avoidance of doubt, (A) if any such ratios are exceeded as a result of fluctuations in such ratio (including due to fluctuations in the Consolidated EBITDA of the Issuer or the target company) at or prior to the consummation of the relevant acquisition or Change of Control, such ratios will not be deemed to have been exceeded as a result of such fluctuations solely for purposes of determining whether such acquisition and any related transactions are permitted hereunder and (B) such ratios shall not be tested at the time of consummation of such acquisition or related transactions; *provided* that if the Issuer elects to have such determinations occur at the time of entry into such definitive agreement, (i) any such transaction shall be deemed to have occurred on the date the definitive agreement is entered into and to be outstanding thereafter for purposes of calculating any ratios under the Senior Secured Notes Indenture after the date of such agreement and before the earlier of the date of consummation of such acquisition or the date such agreement is terminated or expires without consummation of such acquisition and (ii) to the extent any covenant baskets were utilized in satisfying any covenants, such baskets shall be deemed utilized until the earlier of the date of consummation of such acquisition or the date such agreement is terminated or expires without consummation of such acquisition, but any

calculation of Consolidated EBITDA for purposes of other Incurrences of Indebtedness or Liens or making of Restricted Payments (not related to such acquisition) shall not reflect such acquisition until it has been consummated or (b) the date such Indebtedness is Incurred or assumed or such Change of Control occurs;

- (11) notwithstanding anything in this covenant to the contrary, in the case of any Indebtedness Incurred to refinance Indebtedness initially Incurred in reliance on a clause of the second paragraph of this covenant measured by reference to a percentage of LTM EBITDA at the time of Incurrence, if such refinancing would cause the percentage of LTM EBITDA restriction to be exceeded if calculated based on the percentage of LTM EBITDA on the date of such refinancing, such percentage of LTM EBITDA restriction shall not be deemed to be exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced, plus premiums (including tender premiums), defeasance, costs and fees in connection with such refinancing; and
- (12) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined on the basis of IFRS.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares or Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS, will not be deemed to be an Incurrence of Indebtedness for purposes of the covenant described under this “*Limitation on Indebtedness*.”

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under the covenant described under this “*Limitation on Indebtedness*,” the Issuer shall be in default of this covenant).

For purposes of determining compliance with any Euro-denominated restriction on the Incurrence of Indebtedness, the Euro equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term debt, or first committed or first Incurred (whichever yields the lower Euro equivalent), in the case of revolving credit debt; *provided*, that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable Euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Euro-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed (a) the principal amount of such Indebtedness being refinanced plus (b) the aggregate amount of fees, underwriting discounts, accrued and unpaid interest, premiums (including tender premiums) and other costs and expenses (including original issue discount, upfront fees or similar fees) Incurred in connection with such refinancing.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Issuer or a Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

#### ***Limitation on Restricted Payments***

The Issuer will not, and will not permit any of the Restricted Subsidiaries, directly or indirectly, to:

- (1) declare or pay any dividend or make any distribution on or in respect of the Issuer’s or any Restricted Subsidiary’s Capital Stock (including any such payment in connection with any merger or consolidation involving the Issuer or any of the Restricted Subsidiaries) except:
- (a) dividends or distributions payable in Capital Stock of the Issuer (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of the Issuer or in Subordinated Shareholder Funding;



- (b) dividends or distributions payable to the Issuer or a Restricted Subsidiary (and, in the case of the Issuer or any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than the Issuer or another Restricted Subsidiary on no more than a *pro rata* basis); and
  - (c) dividends or distributions payable to any Parent Entity to fund interest payments in respect of Indebtedness of such Parent Entity which is Guaranteed by the Issuer or any Restricted Subsidiary or is otherwise considered Indebtedness of the Issuer or any Restricted Subsidiary (*provided* that (x) any net proceeds from such Indebtedness are contributed to the equity of the Issuer or any Restricted Subsidiary in any form or otherwise received by the Issuer or any Restricted Subsidiary; (y) any net proceeds described in subclause (x) above shall be excluded for purposes of increasing the amount available for distribution pursuant to clause (c) of this paragraph and shall not be Excluded Contributions or Excluded Amounts; and (z) in the case that any net proceeds described in subclause (x) above are contributed to the Issuer or the Restricted Subsidiaries in the form of Indebtedness, there shall be no double-counting of interest paid on such Indebtedness and any dividends or distributions payable to the relevant Parent Entity to fund interest payments in respect of Indebtedness of such Parent Entity);
- (2) purchase, repurchase, redeem, retire or otherwise acquire or retire for value any Capital Stock of the Issuer or any Parent Entity held by Persons other than the Issuer or a Restricted Subsidiary;
  - (3) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such purchase, repurchase, redemption, defeasance or other acquisition or retirement in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of purchase, repurchase, redemption, defeasance or other acquisition or retirement and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under “—*Limitation on Indebtedness*”);
  - (4) make any payment (whether of principal, interest or other amounts) on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value, any Subordinated Shareholder Funding (other than any payment of interest thereon in the form of additional Subordinated Shareholder Funding); or
  - (5) make any Restricted Investment,
- (any such dividend, distribution, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (5) are referred to herein as a “*Restricted Payment*”), if at the time the Issuer or such Restricted Subsidiary makes such Restricted Payment:
- (a) an Event of Default shall have occurred and be continuing (or would immediately thereafter result therefrom);
  - (b) the Issuer is not able to Incur an additional €1.00 of Indebtedness pursuant to the first paragraph under the “—*Limitation on Indebtedness*” covenant immediately after giving effect, on a pro forma basis, to such Restricted Payment; or
  - (c) the aggregate amount of such Restricted Payment and all other Restricted Payments made subsequent to the Original Issue Date (and not returned or rescinded) (including Permitted Payments (as defined below) made pursuant to clauses (1) and (10) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph) would exceed the sum of (without duplication):
    - (i) 50% of Consolidated Net Income for the period (treated as one accounting period) from July 1, 2017, to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which internal consolidated financial statements of the Issuer are available (or, in the case such Consolidated Net Income is a deficit, minus 100% of such deficit); *plus*
    - (ii) 100% of the aggregate amount of cash, and the fair market value of property or assets or marketable securities, received by the Issuer from the issue or sale of its Subordinated Shareholder Funding or Capital Stock or as the result of a merger or consolidation with another Person subsequent to the Original Issue Date or otherwise contributed to the equity



(in each case other than through the issuance of Disqualified Stock or Designated Preferred Stock) of the Issuer subsequent to the Original Issue Date (other than (u) any Shareholder Contribution, (v) Subordinated Shareholder Funding or Capital Stock sold to a Subsidiary of the Issuer, (w) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer for the benefit of their employees to the extent funded by the Issuer or any Restricted Subsidiary, (x) cash or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the next succeeding paragraph, (y) Excluded Contributions and (z) Excluded Amounts); *plus*

- (iii) 100% of the aggregate amount of cash, and the fair market value of property or assets or marketable securities, received by the Issuer or any Restricted Subsidiary from the issuance or sale (other than (x) any Shareholder Contribution, (y) Subordinated Shareholder Funding or (z) Capital Stock sold to the Issuer or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer for the benefit of their employees to the extent funded by the Issuer or any Restricted Subsidiary) by the Issuer or any Restricted Subsidiary subsequent to the Original Issue Date of any Indebtedness, Disqualified Stock or Designated Preferred Stock that has been converted into or exchanged for Capital Stock of the Issuer (other than Disqualified Stock or Designated Preferred Stock) plus, without duplication, the amount of any cash, and the fair market value of property or assets or marketable securities, received by the Issuer or any Restricted Subsidiary upon such conversion or exchange; *plus*
- (iv) 100% of the aggregate amount received in cash and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property received by the Issuer or any Restricted Subsidiary by means of: (i) the sale or other disposition (other than to the Issuer or a Restricted Subsidiary) of Restricted Investments made by the Issuer or the Restricted Subsidiaries and repurchases and redemptions of such Restricted Investments from the Issuer or the Restricted Subsidiaries and repayments of loans or advances, and releases of guarantees, which constitute Restricted Investments by the Issuer or the Restricted Subsidiaries, in each case after the Original Issue Date; or (ii) the sale (other than to the Issuer or a Restricted Subsidiary) of the stock of an Unrestricted Subsidiary or a distribution from an Unrestricted Subsidiary or a dividend from a Person that is not a Restricted Subsidiary after the Original Issue Date (in each case, other than to the extent of the amount of the Investment that constituted a Permitted Investment or was made under clause (17) of the next succeeding paragraph and will increase the amount available under the applicable clause of the definition of “Permitted Investment” or clause (17) of the next succeeding paragraph, as the case may be); *plus*
- (v) in the case of the re-designation of an Unrestricted Subsidiary as a Restricted Subsidiary or the merger, amalgamation or consolidation of an Unrestricted Subsidiary into the Issuer or a Restricted Subsidiary or the transfer of all or substantially all of the assets of an Unrestricted Subsidiary to the Issuer or a Restricted Subsidiary after the Original Issue Date, the fair market value of the Investment in such Unrestricted Subsidiary (or the assets transferred), as determined in good faith by the Issuer at the time of the re-designation of such Unrestricted Subsidiary as a Restricted Subsidiary or at the time of such merger, amalgamation or consolidation or transfer of assets (after taking into consideration any Indebtedness associated with the Unrestricted Subsidiary so designated or merged, amalgamated or consolidated or Indebtedness associated with the assets so transferred), other than to the extent of the amount of the Investment that constituted a Permitted Investment or was made under clause (17) of the next succeeding paragraph and will increase the amount available under the applicable clause of the definition of “Permitted Investment” or clause (17) of the next succeeding paragraph, as the case may be; *plus*
- (vi) €60.0 million,

*provided* that notwithstanding the foregoing, any amounts (such amounts, “*Excluded Amounts*”) that would otherwise be included in the calculation of the amount available for Restricted Payments pursuant to sub-clauses (ii) or (iii) of the preceding clause (c) will be excluded to the extent the purpose of the receipt of such cash, property or assets or marketable securities was used to reduce the Consolidated Total Net

Leverage Ratio of the Issuer and as a result thereof a Change of Control Triggering Event that would otherwise have occurred without the receipt of such cash, property or assets or marketable securities did not occur.

The foregoing provisions will not prohibit any of the following (collectively, “*Permitted Payments*”):

- (1) the payment of any dividend or distribution within 60 days after the date of declaration thereof, if at the date of declaration such payment would have complied with the provisions of the Senior Secured Notes Indenture, or the redemption, repurchase or retirement of Indebtedness if, at the date of any redemption notice, such payment would have complied with the provisions of the Senior Secured Notes Indenture as if it were and is deemed at such time to be a Restricted Payment at the time of such notice;
- (2) (a) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Capital Stock (“*Treasury Capital Stock*”) or Subordinated Indebtedness made by exchange (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares) for, or out of the proceeds of the substantially concurrent sale of, Subordinated Shareholder Funding or Capital Stock of the Issuer (other than Disqualified Stock or Designated Preferred Stock) (“*Refunding Capital Stock*”) or a substantially concurrent contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preferred Stock, any Shareholder Contribution or through an Excluded Contribution or Excluded Amounts) of the Issuer; *provided* that to the extent so applied, the Net Cash Proceeds, or fair market value of property or assets or of marketable securities, from such sale of Subordinated Shareholder Funding or Capital Stock or such contribution will be excluded from clause (c) of the preceding paragraph and (b) if immediately prior to the retirement of Treasury Capital Stock, the declaration and payment of dividends thereon was permitted under clause (13) of this paragraph, the declaration and payment of dividends on the Refunding Capital Stock (other than Refunding Capital Stock the proceeds of which were used to redeem, repurchase, retire or otherwise acquire any Capital Stock of a Parent Entity) in an aggregate amount per year no greater than the aggregate amount of dividends per annum that were declarable and payable on such Treasury Capital Stock immediately prior to such retirement;
- (3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of, Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under “—*Limitation on Indebtedness*” above;
- (4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of the Issuer or a Restricted Subsidiary made by exchange for or out of the proceeds of the substantially concurrent sale of Preferred Stock of the Issuer or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under “—*Limitation on Indebtedness*” above;
- (5) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness (other than Subordinated Shareholder Funding) or Disqualified Stock or Preferred Stock of a Restricted Subsidiary:
  - (a) from Net Available Cash to the extent permitted under “—*Limitation on Sales of Assets and Subsidiary Stock*” below, but only if (and to the extent required) the Issuer shall have first complied with the terms described under “—*Limitation on Sales of Assets and Subsidiary Stock*” and purchased all Senior Secured Notes tendered pursuant to any offer to repurchase all the Senior Secured Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness, Disqualified Stock or Preferred Stock;
  - (b) to the extent required by the agreement governing such Subordinated Indebtedness, Disqualified Stock or Preferred Stock, following the occurrence of (i) a Change of Control (or other similar event described therein as a “change of control”) or (ii) an Asset Disposition (or other similar event described therein as an “asset disposition” or “asset sale”), but only if (and to the extent required) the Issuer shall have first complied with the terms described under “*Change of Control*” or “—*Limitation on Sales of Assets and Subsidiary Stock*,” as applicable, and purchased all Senior Secured Notes tendered pursuant to the offer to repurchase all the Senior Secured Notes

required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness, Disqualified Stock or Preferred Stock; or

- (c) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Issuer or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such acquisition);
- (6) a Restricted Payment to pay for the repurchase, retirement or other acquisition or retirement for value of Capital Stock (including any options, warrants or other rights in respect thereof) (other than Disqualified Stock) of the Issuer or any Parent Entity held by any future, present or former employee, director or consultant of the Issuer, any of its Subsidiaries or any Parent Entity (or permitted transferees, assigns, estates, trusts or heirs of such employee, director, contractor or consultant) either pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement or upon the termination of such employee, director, contractor or consultant's employment or directorship; *provided, however*, that the aggregate Restricted Payments made under this clause (6) do not exceed (x) €20.0 million in any calendar year (with unused amounts in any calendar year being carried forward to the next succeeding calendar year and amounts that will not be used in the subsequent calendar year being carried back to the immediately preceding calendar year) or (y) subsequent to the consummation of an underwritten public Equity Offering of common stock of the Issuer or any Parent Entity, €40.0 million in any calendar year (with unused amounts in any calendar year being carried forward to the next succeeding calendar year and amounts that will not be used in the subsequent calendar year being carried back to the immediately preceding calendar year); *provided further* that such amount in any calendar year may be increased by an amount not to exceed:
  - (a) the cash proceeds from the issuance or sale of Subordinated Shareholder Funding or Capital Stock (other than Disqualified Stock or Designated Preferred Stock, any Shareholder Contribution or Excluded Contributions or Excluded Amounts) of the Issuer and, to the extent contributed to the capital of the Issuer (other than through the issuance of Disqualified Stock or Designated Preferred Stock, any Shareholder Contribution or an Excluded Contribution or Excluded Amounts), Subordinated Shareholder Funding or Capital Stock of any Parent Entity, in each case to members of management, directors or consultants of the Issuer, any of its Subsidiaries or any Parent Entity that occurred after the Original Issue Date, to the extent the cash proceeds from the sale of such Capital Stock or Subordinated Shareholder Funding have not otherwise been applied to the payment of Restricted Payments by virtue of clause (c) of the preceding paragraph; *plus*
  - (b) the cash proceeds of key man life insurance policies received by the Issuer and the Restricted Subsidiaries after the Original Issue Date,and *provided yet further* that cancellation of Indebtedness owing to the Issuer or any Restricted Subsidiary from any future, present or former members of management, directors, employees, contractors or consultants of the Issuer or Restricted Subsidiaries or any Parent Entity in connection with a repurchase of Capital Stock of the Issuer or any Parent Entity will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Senior Secured Notes Indenture;
- (7) the declaration and payment of dividends on Disqualified Stock or Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under “—*Limitation on Indebtedness*” above;
- (8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise, conversion or exchange of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof or withholding or similar taxes in respect thereof and payments in respect of withholding or similar taxes payable upon exercise or vesting thereof;

- (9) dividends, loans, advances or distributions to any Parent Entity or other payments by the Issuer or any Restricted Subsidiary in amounts equal to (without duplication):
- (a) the amounts required for any Parent Entity to pay any Parent Entity Expenses or any Related Taxes;
  - (b) amounts constituting or to be used for purposes of making payments to the extent specified in clauses (2), (3), (5), (11), (12), (17)(a) (but only in respect of the parenthetical thereto) and (17)(c) of the second paragraph under “—*Limitation on Affiliate Transactions*,” *provided* that any such dividends, loans, advances or distributions to make payments in respect of annual management fees specified in paragraph (11)(A) of the second paragraph under “—*Limitation on Affiliate Transactions*” below and made pursuant to this clause (9)(b) shall not exceed an aggregate amount equal to the greater of (x) €10.0 million and (y) 2.0% of LTM EBITDA per calendar year (with unused amounts in any calendar year being carried forward to the next succeeding calendar year and amounts that will not be used in the subsequent calendar year being carried back to the immediately preceding calendar year); and
  - (c) up to €10.0 million per calendar year (with unused amounts in any calendar year being carried forward to the next succeeding calendar year and amounts that will not be used in the subsequent calendar year being carried back to the immediately preceding calendar year);
- (10) the declaration or payment of dividends or distributions, or the making of any cash payments, advances, loans or expense reimbursements on the Capital Stock, common stock or common equity interests of the Issuer, any Parent Entity or any IPO Entity following a Public Offering of such Capital Stock, common stock or common equity interests; *provided* that the aggregate amount of all such dividends or distributions shall not exceed in any fiscal year the greater of: (a) 6% of the Net Cash Proceeds received from such Public Offering or subsequent Equity Offering by the Issuer or contributed to the capital of the Issuer by any Parent Entity in any form other than Indebtedness, any Shareholder Contribution or Excluded Contributions or Excluded Amounts; and (b) following an Initial Public Offering, an amount equal to (i) where, after giving pro forma effect to such dividends, distributions, cash payments, loans or expense reimbursements, the Consolidated Total Net Leverage Ratio shall be equal to or less than 4.75 to 1.00, the greater of (x) 7% of the Market Capitalization and (y) 7% of the IPO Market Capitalization; and (ii) where, after giving pro forma effect to such dividends, distributions, cash payments, loans or expense reimbursements, the Consolidated Total Net Leverage Ratio shall be greater than 4.75 to 1.00, but equal to or less than 5.00:1.00, the greater of (x) 5% of the Market Capitalization and (y) 5% of the IPO Market Capitalization;
- (11) payments by the Issuer, or loans, advances, dividends or distributions to any Parent Entity to make payments, to holders of Capital Stock of the Issuer or any Parent Entity in lieu of the issuance of fractional shares of such Capital Stock, *provided, however*, that any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by the Issuer);
- (12) Restricted Payments that are made with Excluded Contributions;
- (13) the declaration and payment of dividends (i) on Designated Preferred Stock of the Issuer issued after the Original Issue Date; (ii) to a Parent Entity in an amount sufficient to allow the Parent Entity to pay dividends to holders of its Designated Preferred Stock issued after the Original Issue Date; and (iii) on Refunding Capital Stock that is Preferred Stock; *provided, however*, that, in the case of clauses (i) and (ii) of this clause (13), the amount of all dividends declared or paid to a Person pursuant to such clauses shall not exceed the cash proceeds received by the Issuer or the aggregate amount contributed as Subordinated Shareholder Funding or in cash to the equity of the Issuer (other than through the issuance of Disqualified Stock, any Shareholder Contribution or an Excluded Contribution or Excluded Amounts), from the issuance or sale of such Designated Preferred Stock; *provided further*, in the case of clauses (i), (ii) and (iii) of this clause (13), that for the most recently ended four fiscal quarters for which internal financial statements are available immediately preceding the date of issuance of such Designated Preferred Stock or declaration of such dividends on such Refunding Capital Stock, after giving effect to such payment on a pro forma basis the Issuer would be permitted to incur at least €1.00 of additional Indebtedness pursuant to the test set forth in the first paragraph of the covenant described under “—*Limitation on Indebtedness*”;



- (14) distributions, by dividend or otherwise, or other transfer or disposition of shares of Capital Stock, of equity interests in, or Indebtedness owed to the Issuer or a Restricted Subsidiary by, Unrestricted Subsidiaries (other than Unrestricted Subsidiaries, substantially all the assets of which are cash and Cash Equivalents) or proceeds thereof;
- (15) distributions or payments of Securitization Fees, sales contributions and other transfers of Securitization Assets or Receivables Assets and purchases of Securitization Assets or Receivables Assets pursuant to a Securitization Repurchase Obligation, in each case in connection with a Qualified Securitization Financing or Receivables Facility;
- (16) any Restricted Payment made in connection with the Transactions, including payments to Minority Shareholders under the Domination Agreement, and any costs and expenses (including all legal, accounting and other professional fees and expenses) related thereto or used to fund amounts owed to Affiliates in connection with the Transactions (including dividends to any Parent Entity to permit payment by such Parent Entity of such amounts);
- (17) so long as no Event of Default has occurred and is continuing (i) Restricted Payments (including loans or advances) in an aggregate amount outstanding at the time made not to exceed the greater of (a) €150.0 million and (b) 30.0% of LTM EBITDA at such time, and (ii) any Restricted Payments, so long as, immediately after giving pro forma effect to the payment of any such Restricted Payment and the Incurrence of any Indebtedness the net proceeds of which are used to make such Restricted Payment, the Consolidated Senior Secured Net Leverage Ratio shall be no greater than 4.25 to 1.00;
- (18) mandatory redemptions of Disqualified Stock issued as a Restricted Payment or as consideration for a Permitted Investment;
- (19) the redemption, defeasance, repurchase, exchange or other acquisition or retirement of Subordinated Indebtedness of the Issuer or any Guarantor in an aggregate amount at any time outstanding taken together with all other redemptions, defeasances, repurchases, exchanges or other acquisitions or retirements of Subordinated Indebtedness made pursuant to this clause not to exceed the greater of (a) €75.0 million and (b) 15.0% of LTM EBITDA at the time of such redemption, defeasance, repurchase, exchange or other acquisition or retirement of Subordinated Indebtedness;
- (20) payments or distributions to dissenting stockholders pursuant to applicable law (including in connection with, or as a result of, exercise of appraisal rights and the settlement of any claims or action (whether actual, contingent or potential)), pursuant to or in connection with a consolidation, merger or transfer of all or substantially all of the assets of the Issuer and the Restricted Subsidiaries, taken as a whole, that complies with the covenants described under “*Merger and Consolidation*”;
- (21) Restricted Payments to a Parent Entity to finance Investments that would otherwise be permitted to be made pursuant to this covenant if made by the Issuer; *provided* that (a) such Restricted Payment shall be made substantially concurrently with the closing of such Investment, (b) such Parent Entity shall, promptly following the closing thereof, cause (i) all property acquired (whether assets or Capital Stock) to be contributed to the capital of the Issuer or one of the Restricted Subsidiaries or (ii) the merger or amalgamation of the Person formed or acquired into the Issuer or one of the Restricted Subsidiaries (to the extent not prohibited by the covenant “*Merger and Consolidation*”) to consummate such Investment, (c) such Parent Entity and its Affiliates (other than the Issuer or a Restricted Subsidiary) receives no consideration or other payment in connection with such transaction except to the extent the Issuer or a Restricted Subsidiary could have given such consideration or made such payment in compliance with the Senior Secured Notes Indenture, (d) any property received by the Issuer shall not increase amounts available for Restricted Payments pursuant to clause (c) of the preceding paragraph, clauses (2) or (6) above or be deemed to be an Excluded Contribution or an Excluded Amount and (e) such Investment shall be deemed to be made by the Issuer or such Restricted Subsidiary pursuant to another provision of this covenant (other than pursuant to clause (12) hereof) or pursuant to the definition of “Permitted Investments” (other than pursuant to clause (12) thereof);
- (22) the Guarantee by the Issuer and any Guarantor of such Indebtedness of a Parent Entity so long as such Guarantee has been incurred in accordance with the terms of the covenant described under “—*Limitation on Indebtedness*”;



- (23) any Restricted Payment made with Net Available Cash from any Asset Disposition and permitted pursuant to clause (3) of the first paragraph under “—*Limitation on Sales of Assets and Subsidiary Stock*”;
- (24) any dividends, repayments of equity, reductions of capital or any other distribution by any Restricted Subsidiary to any other company that is a member of the same fiscal unity (*fiscale eenheid*) for Dutch corporate income tax or value added tax purposes; and
- (25) any dividends, repayments of equity, reductions of capital, loans or any other distribution (a “*tax distribution*”) by the Issuer or any Restricted Subsidiary to any Parent Entity that is a member of the same fiscal unity (*steuerliche Organschaft*) for German corporate income tax and trade tax purposes; *provided that* (a) where payments under a German fiscal unity are required to be made by any Parent Entity to cover Taxes on a consolidated basis on behalf of the Issuer and the Restricted Subsidiaries, a tax distribution shall be made in cash to such Parent Entity in accordance with the definition of Permitted Tax Distribution; and (b) the remainder of such tax distribution in excess of the amount permitted pursuant to clause (a) above shall not be paid to such Parent Entity in cash, but instead will be converted into an intercompany loan made by such Parent Entity to the Issuer which constitutes Subordinated Liabilities (as defined in the Intercreditor Agreement).

For purposes of determining compliance with this covenant, in the event that a Restricted Payment (or portion thereof) meets the criteria of more than one of the categories of Permitted Payments described in clauses (1) through (25) above, and/or is permitted pursuant to the first paragraph of this covenant and/or constitutes a Permitted Investment, the Issuer will be entitled to classify such Restricted Payment or Investment (or portion thereof) on the date of its payment or later reclassify (based on circumstances existing on the date of such reclassification) such Restricted Payment or Investment (or portion thereof) in any manner that complies with this covenant, including as a Permitted Investment.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount, and the fair market value of any non-cash Restricted Payment, property or assets other than cash shall be determined conclusively by the Issuer acting in good faith.

Unrestricted Subsidiaries may use value transferred from the Issuer and the Restricted Subsidiaries in a Permitted Investment to purchase or otherwise acquire Indebtedness or Capital Stock of the Issuer, any Parent Entity or any of the Issuer’s Restricted Subsidiaries, and to transfer value to the holders of the Capital Stock or any Parent Entity and to Affiliates thereof, and such purchase, acquisition, or transfer will not be deemed to be a “direct or indirect” action by the Issuer or the Restricted Subsidiaries.

#### ***Limitation on Liens***

The Issuer will not, and the Issuer will not permit any Restricted Subsidiary or the Company to, directly or indirectly, create, incur or suffer to exist any Lien upon any of its property or assets (including Capital Stock of a Restricted Subsidiary and, in the case of the Company, limited in all respects to those of its assets constituting Collateral), whether owned on the Original Issue Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the “*Initial Lien*”), except (a) in the case of any property or asset that does not constitute Collateral, (1) Permitted Liens or (2) Liens on property or assets that are not Permitted Liens if the Senior Secured Notes, the Senior Secured Notes Guarantees and the Senior Secured Notes Indenture are directly secured equally and ratably with, or prior to, in the case of Liens with respect to Subordinated Indebtedness, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured, and (b) in the case of any property or asset that constitutes Collateral, Permitted Collateral Liens.

Any such Lien created in favor of the Senior Secured Notes, the Senior Secured Notes Guarantees and the Senior Secured Notes Indenture under (a)(2) in the preceding paragraph will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates, and (ii) otherwise as set forth under the Senior Secured Notes Indenture, the Intercreditor Agreement and/or any Additional Intercreditor Agreement and/or under the relevant Senior Secured Security Document.

With respect to any Lien securing Indebtedness that was permitted to secure such Indebtedness at the time of the Incurrence of such Indebtedness, such Lien shall also be permitted to secure any Increased Amount

of such Indebtedness. The “*Increased Amount*” of any Indebtedness shall mean any increase in the amount of such Indebtedness in connection with any accrual of interest, the accretion of accreted value, the amortization of original issue discount, the payment of interest in the form of additional Indebtedness with the same terms, accretion of original issue discount or liquidation preference and increases in the amount of Indebtedness outstanding solely as a result of fluctuations in the exchange rate of currencies or increases in the value of property securing Indebtedness.

***Limitation on Restrictions on Distributions from Restricted Subsidiaries***

The Issuer will not, and will not permit any Restricted Subsidiary to create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

- (A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock or pay any Indebtedness or other obligations owed to the Issuer or any Restricted Subsidiary;
- (B) make any loans or advances to the Issuer or any Restricted Subsidiary; or
- (C) sell, lease or transfer any of its property or assets to the Issuer or any Restricted Subsidiary,

*provided* that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to the Issuer or any Restricted Subsidiary to other Indebtedness Incurred by the Issuer or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

- (1) any encumbrance or restriction pursuant to (a) any Credit Facility (including the Senior Facilities), (b) the Intercreditor Agreement and any Additional Intercreditor Agreement and (c) any other agreement or instrument, in each case, in effect at or entered into on the Original Issue Date;
- (2) any encumbrance or restriction pursuant to the Senior Secured Notes Indenture, the Senior Secured Notes, the Senior Secured Security Documents, the Senior Secured Notes Guarantees, the Senior Notes Indenture, the Senior Notes Guarantees or the security documents in respect of the Senior Notes;
- (3) any encumbrance or restriction pursuant to applicable law, rule, regulation or order;
- (4) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into the Issuer or any Restricted Subsidiary, or was designated as a Restricted Subsidiary or on which such agreement or instrument is assumed by the Issuer or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by the Issuer or was merged, consolidated or otherwise combined with or into the Issuer or any Restricted Subsidiary or entered into in contemplation of or in connection with such transaction) and outstanding on such date; *provided* that, for the purposes of this clause, if another Person is the Successor Issuer (as defined below), any Subsidiary thereof or agreement or instrument of such Person or any such Subsidiary shall be deemed acquired or assumed by the Issuer or any Restricted Subsidiary when such Person becomes the Successor Issuer;
- (5) any encumbrance, restriction or condition:
  - (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract or agreement, or the assignment or transfer of any lease, license or other contract or agreement;
  - (b) contained in mortgages, pledges, charges or other security agreements permitted under the Senior Secured Notes Indenture or securing Indebtedness of the Issuer or a Restricted Subsidiary permitted under the Senior Secured Notes Indenture to the extent such encumbrances or restrictions restrict the transfer or encumbrance of the property or assets subject to such mortgages, pledges, charges or other security agreements;

- (c) contained in any trading, netting, operating, construction, service, supply, purchase, sale or other agreement to which the Issuer or any of the Restricted Subsidiaries is a party entered into in the ordinary course of business or consistent with past practice; *provided* that such agreement prohibits the encumbrance of solely the property or assets of the Issuer or such Restricted Subsidiary that are the subject to such agreement, the payment rights arising thereunder or the proceeds thereof and does not extend to any other asset or property of the Issuer or such Restricted Subsidiary or the assets or property of another Restricted Subsidiary; or
- (d) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Issuer or any Restricted Subsidiary;
- (6) any encumbrance or restriction pursuant to Purchase Money Obligations and Capitalized Lease Obligations permitted under the Senior Secured Notes Indenture, in each case, that impose encumbrances or restrictions on the property so acquired;
- (7) any encumbrance or restriction imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of the Issuer or any Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;
- (8) customary provisions in leases, licenses, shareholder agreements, joint venture agreements and other similar agreements, organizational documents and instruments;
- (9) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation, licensing requirement or order, or required by any regulatory authority;
- (10) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business or consistent with past practice;
- (11) any encumbrance or restriction pursuant to Hedging Obligations;
- (12) restrictions created in connection with any Qualified Securitization Financing or Receivables Facility that, in the good faith determination of the Issuer, are necessary or advisable to effect such Securitization Facility or Receivables Facility;
- (13) any encumbrance or restriction arising pursuant to an agreement or instrument (a) relating to any Indebtedness permitted to be Incurred subsequent to the Original Issue Date pursuant to the provisions of the covenant described under “—*Limitation on Indebtedness*” if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders (taken as a whole) than (i) the encumbrances and restrictions contained in (A) the Senior Facilities or the Senior Secured Notes Indenture, together with the Senior Secured Security Documents associated therewith, and (B) the Intercreditor Agreement, in each case, as in effect on the Original Issue Date or (ii) as is customary in comparable financings (as determined in good faith by the Issuer) and where, in the case of this sub-clause (ii), either (x) the Issuer determines at the time of entry into such agreement or instrument that such encumbrances or restrictions will not adversely affect, in any material respect, the Issuer’s ability to make principal or interest payments on the Senior Secured Notes or (y) such encumbrance or restriction applies only during the continuance of a default relating to such agreement or instrument, or (b) constituting an Additional Intercreditor Agreement;
- (14) any encumbrance or restriction existing by reason of any lien permitted under “—*Limitation on Liens*”; or
- (15) any encumbrance or restriction pursuant to an agreement or instrument effecting a refinancing of Indebtedness Incurred pursuant to, or that otherwise refinances, an agreement or instrument referred to in clauses (1) to (14) of this paragraph or this clause (an “*Initial Agreement*”) or contained in any amendment, supplement or other modification to an agreement referred to in clauses (1) to (14) of this paragraph or this clause (15); *provided, however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favorable in any material respect to the Holders (taken as a whole) than the encumbrances and restrictions contained in the Initial Agreement or Initial Agreements to which such refinancing or amendment, supplement or other modification relates (as determined in good faith by the Issuer).

### ***Limitation on Sales of Assets and Subsidiary Stock***

The Issuer will not, and will not permit any of the Restricted Subsidiaries to, make any Asset Disposition unless:

- (1) the Issuer or such Restricted Subsidiary, as the case may be, receives consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) at least equal to the fair market value (such fair market value to be determined on the date of contractually agreeing to such Asset Disposition), as determined in good faith by the Issuer, of the shares and assets subject to such Asset Disposition (including, for the avoidance of doubt, if such Asset Disposition is a Permitted Asset Swap);
- (2) in any such Asset Disposition, or series of related Asset Dispositions (except to the extent the Asset Disposition is a Permitted Asset Swap), with a purchase price in excess of the greater of (a) €50.0 million and (b) 10.0% of LTM EBITDA, at least 75% of the consideration from such Asset Disposition (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) received by the Issuer or such Restricted Subsidiary, as the case may be, is in the form of cash or Cash Equivalents; and
- (3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied:
  - (a) to the extent the Issuer or any Restricted Subsidiary, as the case may be, elects (or is required by the terms of any Indebtedness) to prepay, repay or purchase any Indebtedness of a Restricted Subsidiary that is not a Guarantor (in each case, other than Indebtedness owed to the Issuer or any Restricted Subsidiary) or any Senior Secured Indebtedness, including Indebtedness under any Credit Facility (including the Senior Facilities) (or any Refinancing Indebtedness in respect thereof) within 360 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; *provided, however*, that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this clause (a), the Issuer or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) to be reduced in an amount equal to the principal amount so prepaid, repaid or purchased; *provided further* that to the extent the Issuer or any Restricted Subsidiary has elected to prepay, repay or purchase any amount of Senior Secured Indebtedness at a price not less than par and has extended such offer to the Holders on at least a *pro rata* basis, to the extent the creditors in respect of such Senior Secured Indebtedness (including any Holders) elect not to tender their Senior Secured Indebtedness for such prepayment, repayment or purchase, the Issuer will be deemed to have applied an amount of Net Available Cash equal to such amount not tendered under this paragraph (A), and such amount shall not increase the amount of Excess Proceeds; or
  - (b) to the extent the Issuer or any Restricted Subsidiary elects, to invest in or commit to invest in Additional Assets (including by means of an investment in Additional Assets by a Restricted Subsidiary equal to the amount of Net Available Cash received by the Issuer or another Restricted Subsidiary) within 360 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; *provided, however*, that a binding agreement shall be treated as a permitted application of Net Available Cash from the date of such commitment with the good faith expectation that an amount equal to Net Available Cash will be applied to satisfy such commitment within 180 days of such commitment (an “*Acceptable Commitment*”) and, in the event any *Acceptable Commitment* is later cancelled or terminated for any reason before such amount is applied, then such Net Available Cash shall constitute Excess Proceeds,

*provided further* that, pending the final application of the amount of any such Net Available Cash in accordance with clause (a) or (b) above, the Issuer and the Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise use such Net Available Cash in any manner not prohibited by the Senior Secured Notes Indenture.

Notwithstanding the foregoing, to the extent that (x) a distribution of any or all of the Net Available Cash of any Asset Disposition by a Subsidiary to the Issuer or another Restricted Subsidiary (to the extent necessary to comply with this covenant) is prohibited or delayed by applicable local law (including financial assistance and corporate benefit restrictions and fiduciary and statutory duties of the relevant directors) or (y) a distribution of any or all of the Net Available Cash of any Asset Disposition by a Subsidiary to the Issuer or another Restricted Subsidiary (to the extent necessary to comply with this covenant) could result in material adverse Tax consequences, as determined by the Issuer in its sole discretion, the portion of such Net Available Cash so affected will not be required to be applied in compliance with this covenant.



The amount of any Net Available Cash from Asset Dispositions that is not applied or invested or committed to be applied or invested as provided in the first paragraph of this covenant will be deemed to constitute “*Excess Proceeds*” under the Senior Secured Notes Indenture. On the 361st day (or such longer period permitted by clause (b) of the first paragraph of this covenant) after the later of an Asset Disposition or the receipt of such Net Available Cash, if the aggregate amount of Excess Proceeds under the Senior Secured Notes Indenture exceeds €50.0 million in a single transaction, the Issuer will within 10 Business Days be required to make an offer (“*Asset Disposition Offer*”) to all Holders of Senior Secured Notes issued under the Senior Secured Notes Indenture and, to the extent the Issuer elects, to all holders of other outstanding Pari Passu Indebtedness, to repay, prepay or purchase the maximum aggregate principal amount of Senior Secured Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be repaid, prepaid or purchased out of the Excess Proceeds, at an offer price in respect of the Senior Secured Notes in an amount equal to 100% of the principal amount of the Senior Secured Notes (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 100% of the principal amount of such Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of repayment, prepayment or purchase, in accordance with the procedures set forth in the Senior Secured Notes Indenture or the agreements governing the Pari Passu Indebtedness, as applicable, and with respect to the Senior Secured Notes, in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof. The Issuer will deliver notice of such Asset Disposition Offer electronically or by first-class mail, with a copy to the Trustee, the Paying Agent and each Holder at the address of such Holder appearing in the security register or otherwise in accordance with the applicable procedures of Euroclear and Clearstream, describing the transaction or transactions that constitute the Asset Disposition and offering to repurchase the Senior Secured Notes for the specified purchase price on the date specified in the notice, which date will be no earlier than 10 days and no later than 60 days from the date such notice is delivered, pursuant to the procedures required by the Senior Secured Notes Indenture and described in such notice. The Issuer may satisfy the foregoing obligations with respect to any Net Available Cash from an Asset Disposition by making an Asset Disposition Offer with respect to all Net Available Cash prior to the expiration of the relevant 360 days (or such longer period provided above) or with respect to any unapplied Excess Proceeds.

To the extent that the aggregate amount of Senior Secured Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Issuer may use any remaining Excess Proceeds for any purpose not prohibited by the Senior Secured Notes Indenture. If the aggregate principal amount of the Senior Secured Notes surrendered in any Asset Disposition Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Issuer shall allocate the Excess Proceeds among the Senior Secured Notes and Pari Passu Indebtedness to be repaid, prepaid or purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Senior Secured Notes and Pari Passu Indebtedness provided that the Issuer shall not be required to select and purchase Senior Secured Notes or other Pari Passu Indebtedness in an unauthorized denomination. Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

To the extent that any portion of Net Available Cash payable in respect of the Senior Secured Notes is denominated in a currency other than Euros, the amount thereof payable in respect of the Senior Secured Notes shall not exceed the net amount of funds in Euros that is actually received by the Issuer upon converting such portion into Euros.

For the purposes of clause (2) of the first paragraph of this covenant, the following will be deemed to be cash:

- (1) the assumption by the transferee of Indebtedness or other liabilities, contingent or otherwise, of the Issuer or a Restricted Subsidiary (other than Subordinated Indebtedness of the Issuer or a Guarantor) and the release of the Issuer or such Restricted Subsidiary from all liability on such Indebtedness or other liability in connection with such Asset Disposition;
- (2) securities, notes or other obligations received by the Issuer or any Restricted Subsidiary from the transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition;
- (3) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, to the extent that the Issuer and each other Restricted Subsidiary are released from any guarantee of payment of such Indebtedness in connection with such Asset Disposition;



- (4) consideration consisting of Indebtedness of the Issuer (other than Subordinated Indebtedness) received after the Original Issue Date from Persons who are not the Issuer or any Restricted Subsidiary; and
- (5) any Designated Non-Cash Consideration received by the Issuer or any Restricted Subsidiary in such Asset Dispositions having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, not to exceed the greater of (a) €100.0 million and (b) 20.0% of LTM EBITDA (with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

To the extent that the provisions of any securities laws or regulations, including Rule 14e-1 under the Exchange Act, conflict with the provisions of the Senior Secured Notes Indenture, the Issuer will comply with the applicable securities laws, rules and regulations and shall not be deemed to have breached its obligations described in the Senior Secured Notes Indenture by virtue thereof.

Notwithstanding any other provision in the Senior Secured Notes Indenture to the contrary, the provisions of the Senior Secured Notes Indenture relative to the Issuer's obligation to make an offer to repurchase the Senior Secured Notes as a result of an Asset Disposition may be waived or modified with the written consent of the Holders of a majority in principal amount of the Senior Secured Notes then outstanding.

The Senior Facilities may prohibit or limit, and future credit agreements or other agreements to which the Issuer becomes a party may prohibit or limit, the Issuer from purchasing any Senior Secured Notes pursuant to this covenant. In the event the Issuer is prohibited from purchasing the Senior Secured Notes, the Issuer could seek the consent of its lenders to the purchase of the Senior Secured Notes or could attempt to refinance the borrowings that contain such prohibition. If the Issuer does not obtain such consent or repay such borrowings, it will remain prohibited from purchasing the Senior Secured Notes. In such case, the Issuer's failure to purchase tendered Senior Secured Notes would constitute a Default under the Senior Secured Notes Indenture.

#### ***Limitation on Affiliate Transactions***

The Issuer will not, and will not permit any Restricted Subsidiary to enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Issuer (any such transaction or series of related transactions being an "*Affiliate Transaction*") involving aggregate value in excess of the greater of (i) €37.5 million and (ii) 7.5% of LTM EBITDA unless:

- (1) the terms of such Affiliate Transaction taken as a whole are not materially less favorable to the Issuer or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's length dealings with a Person who is not such an Affiliate; and
- (2) in the event such Affiliate Transaction involves an aggregate value in excess of the greater of (a) €75.0 million and (b) 15.0% of LTM EBITDA, the terms of such Affiliate Transaction have been approved by a majority of the members of the Board of Directors of the Issuer.

Any Affiliate Transaction shall be deemed to have satisfied the requirements set forth in clause (2) above if such Affiliate Transaction is approved by a majority of the Disinterested Directors of the Issuer, if any.

The provisions of the preceding paragraph will not apply to:

- (1) any Restricted Payment permitted to be made pursuant to the covenant described under "*—Limitation on Restricted Payments,*" or any Permitted Investment;
- (2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of the Issuer, any Restricted Subsidiary or any Parent Entity, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or

consultants approved by the Board of Directors of the Issuer, in each case in the ordinary course of business or consistent with past practice;

- (3) any Management Advances and any waiver or transaction with respect thereto;
- (4) any (a) transaction between or among the Issuer and any Restricted Subsidiary (or entity that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries and (b) merger, amalgamation or consolidation with any Parent Entity, *provided* that such Parent Entity shall have no material liabilities and no material assets other than cash, Cash Equivalents and the Capital Stock of the Issuer and such merger, amalgamation or consolidation is otherwise permitted under the Senior Secured Notes Indenture;
- (5) the payment of compensation, fees and reimbursement of expenses to, and customary indemnities (including under customary insurance policies) and employee benefit and pension expenses provided on behalf of, directors, officers, contractors, consultants, distributors or employees of the Issuer, any Parent Entity or any Restricted Subsidiary (whether directly or indirectly and including through any Controlled Investment Affiliate of such directors, officers, contractors, consultants, distributors or employees);
- (6) the entry into and performance of obligations of the Issuer or any of the Restricted Subsidiaries under the terms of any transaction arising out of, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Original Issue Date, as these agreements and instruments may be amended, modified, supplemented, extended, renewed or refinanced from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders (taken as a whole) in any material respect;
- (7) any transaction with a Securitization Subsidiary effected as part of a Qualified Securitization Financing or Receivables Facility, any disposition or repurchase of Securitization Assets, Receivables Assets or related assets in connection with any Qualified Securitization Financing or Receivables Facility;
- (8) transactions with customers, clients, joint venture partners, suppliers, contractors, distributors or purchasers or sellers of goods or services, in each case in the ordinary course of business or consistent with past practice, which are fair to the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors of the Issuer or the senior management of the Issuer or the relevant Restricted Subsidiary, or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;
- (9) any transaction in the ordinary course of business between or among the Issuer or any Restricted Subsidiary and any Affiliate of the Issuer or an Associate or similar entity which would constitute an Affiliate Transaction solely (i) because the Issuer or a Restricted Subsidiary or any Affiliate of the Issuer or a Restricted Subsidiary or any Affiliate of any Permitted Holder owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity or (ii) due to the fact that a director of such Person is also a director of the Issuer or any direct or indirect Parent Entity of the Issuer (*provided, however*, that such director abstains from voting as a director of the Issuer or such direct or indirect Parent Entity of the Issuer, as the case may be, on any matter involving such other Person);
- (10) any (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preferred Stock) of the Issuer or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Funding and the granting of registration and other customary rights (and the performance of the related obligations) in connection therewith or any contribution to capital of the Issuer or any Restricted Subsidiary and (b) amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding in compliance with the other provisions of the Senior Secured Notes Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement, as applicable; *provided* that such Subordinated Shareholder Funding, as amended or otherwise modified, will continue to satisfy the requirements described in the definition of “*Subordinated Shareholder Funding*”;
- (11) (a) any payments by the Issuer or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly), including to its affiliates or its designees, of annual management, consulting, monitoring, refinancing, transaction, subsequent transaction exit fees, advisory fees and related costs and reasonable expenses and indemnitees in connection therewith and any termination fees (including any such cash lump sum or present value fee upon the consummation of a corporate event, including

an Initial Public Offering) and (b) any customary payments by the Issuer or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent Entity) for financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which are in the case of each of clauses (a) and (b) approved by a majority of the Board of Directors of the Issuer in good faith;

- (12) payment to any Permitted Holder of all out of pocket expenses incurred by such Permitted Holder in connection with its direct or indirect investment in the Issuer and its Subsidiaries;
- (13) the Transactions and the payment of all costs and expenses (including all legal, accounting and other professional fees and expenses) related to the Transactions;
- (14) transactions in which the Issuer or any Restricted Subsidiary, as the case may be, delivers to the Trustee a letter from an Independent Financial Advisor stating that such transaction is fair to the Issuer or such Restricted Subsidiary from a financial point of view or meets the requirements of clause (1) of the preceding paragraph;
- (15) the existence of, or the performance by the Issuer or any Restricted Subsidiary of its obligations under the terms of, any equityholders agreement (including any registration rights agreement or purchase agreements related thereto) to which it is party as of the Original Issue Date, and any similar agreement that it may enter into thereafter; *provided, however*, that the existence of, or the performance by the Issuer or any Restricted Subsidiary of its obligations under any future amendment to the equityholders' agreement or under any similar agreement entered into after the Original Issue Date will only be permitted under this clause to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous to the Holders (taken as a whole) in any material respect as determined in good faith by the Issuer;
- (16) any purchases by the Issuer's Affiliates of Indebtedness or Disqualified Stock of the Issuer or any of the Restricted Subsidiaries the majority of which Indebtedness or Disqualified Stock is purchased by Persons who are not the Issuer's Affiliates; *provided* that such purchases by the Issuer's Affiliates are on the same terms as such purchases by such Persons who are not the Issuer's Affiliates;
- (17) any (a) Investments by Affiliates in securities of the Issuer or any of the Restricted Subsidiaries (and payment of reasonable out-of-pocket expenses Incurred by such Affiliates in connection therewith) so long as the Investment is being offered by the Issuer or such Restricted Subsidiary generally to other non-affiliated third party investors on the same or more favorable terms; (b) payments to Affiliates in respect of securities of the Issuer or any of the Restricted Subsidiaries contemplated in the foregoing clause (17)(a) or that were acquired from Persons other than the Issuer and the Restricted Subsidiaries, in each case, in accordance with the terms of such securities; and (c)(i) acquisition by Affiliates of Target Shares from Persons other than the Issuer or any of the Restricted Subsidiaries and (ii) Acquisition of such Target Shares by the Issuer or German Holdco from such Affiliates (and payment of reasonable out-of-pocket expenses Incurred by such Affiliates in connection with the purchase and sale to the Issuer or German Holdco of such Target Shares);
- (18) payments by any Parent Entity, the Issuer and its Restricted Subsidiaries pursuant to any tax sharing agreement or other equity agreements in respect of Related Taxes among any such Parent Entity, the Issuer and its Restricted Subsidiaries on customary terms to the extent attributable to the ownership or operation of the Issuer and its Subsidiaries;
- (19) payments, Indebtedness and Disqualified Stock (and cancellation of any thereof) of the Issuer and the Restricted Subsidiaries and Preferred Stock (and cancellation of any thereof) of any Restricted Subsidiary to any future, current or former employee, director, officer, contractor or consultant (or their respective Controlled Investment Affiliates or Immediate Family Members) of the Issuer, any of its Subsidiaries or any of its Parent Entities pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement or any stock subscription or shareholder agreement; and any employment agreements, stock option plans and other compensatory arrangements (and any successor plans thereto) and any supplemental executive retirement benefit plans or arrangements with any such employees, directors, officers, contractors or consultants (or their respective Controlled Investment Affiliates or Immediate Family Members) that are, in each case, approved by the Issuer in good faith;

- (20) employment and severance arrangements between the Issuer or the Restricted Subsidiaries and their respective officers, directors, contractors, consultants, distributors and employees in the ordinary course of business or entered into in connection with or as a result of the Transactions;
- (21) any transition services arrangement, supply arrangement or similar arrangement entered into in connection with or in contemplation of the disposition of assets or Capital Stock in any Restricted Subsidiary permitted under “—*Limitation on Sales of Assets and Subsidiary Stock*” or entered into with any Business Successor, in each case, that the Issuer determines in good faith is either fair to the Issuer or otherwise on customary terms for such type of arrangements in connection with similar transactions;
- (22) transactions entered into by an Unrestricted Subsidiary with an Affiliate prior to the day such Unrestricted Subsidiary is re-designated as a Restricted Subsidiary as described under “—*Designation of Restricted and Unrestricted Subsidiaries*” and pledges of Capital Stock of Unrestricted Subsidiaries;
- (23) any lease entered into between the Issuer or any Restricted Subsidiary, as lessee, and any Affiliate of the Issuer that is not a Restricted Subsidiary, as lessor, which is approved by a majority of the members of the Board of Directors of the Issuer;
- (24) intellectual property licenses in the ordinary course of business or consistent with past practice;
- (25) payments to or from, and transactions with, any joint venture in the ordinary course of business or consistent with past practice (including any cash management activities related thereto);
- (26) the payment of costs and expenses related to registration rights and customary indemnities provided to shareholders under any shareholder agreement; and
- (27) any Permitted Tax Restructuring.

#### ***Designation of Restricted and Unrestricted Subsidiaries***

The Issuer may designate any Restricted Subsidiary to be an Unrestricted Subsidiary and any Unrestricted Subsidiary to be a Restricted Subsidiary, in each case, if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by the Issuer and the Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments pursuant to the covenant described under “—*Limitation on Restricted Payments*” or under one or more clauses of the definition of Permitted Investments, as determined by the Issuer. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Senior Secured Notes Indenture and any Indebtedness of such Subsidiary will be deemed to be Incurred by a Restricted Subsidiary as of such date and, if such Indebtedness is not permitted to be Incurred as of such date under the covenant described under “—*Limitation on Indebtedness*,” the Issuer will be in default of such covenant.

If an Unrestricted Subsidiary is designated as a Restricted Subsidiary, that designation will be deemed to be an Incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under “—*Limitation on Indebtedness*” (including pursuant to clause (5) of the second paragraph thereof, treating such designation as an acquisition for the purpose of such clause), calculated on a pro forma basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence immediately following such designation. Any such designation by the Issuer or the re-designation of an Unrestricted Subsidiary to a Restricted Subsidiary as contemplated hereby shall be evidenced to the Trustee on the date of such designation or re-designation by filing with the Trustee an Officer’s Certificate certifying that such designation or re-designation complies with the preceding conditions.

## **Reports**

So long as any Senior Secured Notes are outstanding, the Issuer will furnish to the Trustee the following reports following the Original Issue Date:

- (1) within 150 days after the end of the Issuer's fiscal year ending December 31, 2017, and within 120 days after the end of the Issuer's fiscal years thereafter, beginning with the fiscal year ending December 31, 2017, annual reports containing: (i) the audited consolidated balance sheet of the Issuer as at the end of the most recent two fiscal years and audited consolidated income statements and statements of cash flow of the Issuer for the most recent two fiscal years, including appropriate footnotes to such financial statements, for and as at the end of such fiscal years and the report of the independent auditors on the financial statements; (ii) an operating and financial review of the audited financial statements, including a discussion of the consolidated financial condition, results of operations, EBITDA and material changes in liquidity and capital resources of the Issuer; (iii) unaudited pro forma income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations (other than an Acquisition) that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates (unless such pro forma information has been provided in a previous report pursuant to clause (2) or (3) below); *provided* that such pro forma financial information will be provided only to the extent available without unreasonable expense, in which case the Issuer will provide, in the case of a material acquisition, acquired company financials; (iv) a brief description of the business, management and shareholders of the Issuer, all material affiliate transactions and a description of all material debt instruments; *provided* that the information described in clause (iv) may be provided in the footnotes to the audited financial statements;
- (2) within 60 days (or, in the case of the fiscal quarter ended September 30, 2017, 90 days) following the end of each of the first three fiscal quarters in each fiscal year of the Issuer, beginning with the quarter ended September 30, 2017, quarterly financial statements containing the following information: (i) the Issuer's unaudited condensed consolidated balance sheet as at the end of such quarter and unaudited condensed statements of income and cash flow for the most recent quarter year to date period ending on the unaudited condensed balance sheet date and the comparable prior period, together with condensed footnote disclosure; (ii) unaudited pro forma income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year as to which such quarterly report relates; *provided* that such pro forma financial information will be provided only to the extent available without unreasonable expense, in which case the Issuer will provide, in the case of a material acquisition, acquired company financials; (iii) an operating and financial review of the unaudited financial statements, including a discussion of the consolidated financial condition, results of operations, EBITDA and material changes in liquidity and capital resources of the Issuer; and
- (3) promptly after the occurrence of a material event that the Issuer announces publicly or any acquisition, disposition or restructuring, merger or similar transaction that is material to the Issuer and the Restricted Subsidiaries, taken as a whole, or a change in a senior executive officer of the Issuer or a change in auditors of the Issuer, a report containing a description of such event.

In addition, the Issuer shall furnish to the Holders and to prospective investors, upon the request of such parties, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act for so long as the Senior Secured Notes are not freely transferable under the Exchange Act by persons who are not "affiliates" under the Securities Act.

All financial statement information (excluding, for the avoidance of doubt, the calculations made under any incurrence covenant, which shall be prepared in accordance with the terms of the Senior Secured Notes Indenture) shall be prepared in accordance with IFRS as in effect on the date of such report or financial statement (or otherwise on the basis of IFRS as then in effect) and on a consistent basis for the periods presented, except as may otherwise be described in such information; *provided, however*, that the reports set forth in clauses (1), (2) and (3) above may, in the event of a change in IFRS, present earlier periods on a basis that applied to such periods. No report need include separate financial statements for any Subsidiaries of the Issuer or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in the Offering Memorandum. In addition, the reports set forth above will not be required to contain any reconciliation to GAAP.



For purposes of this covenant, an acquisition or disposition shall be deemed to be material if the entity or business acquired or disposed of represents greater than 20% of the Issuer's pro forma consolidated revenue or LTM EBITDA for the most recent four quarters for which annual or quarterly financial reports have been delivered to the Trustee.

At any time that any of the Issuer's Subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, taken as a whole, constitutes a Significant Subsidiary of the Issuer, then the quarterly and annual financial information required by the first paragraph of this "Reports" covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Issuer and the Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

In the event that (i) the Issuer becomes subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act, or elects to comply with such provisions, for so long as it continues to file the reports required by Section 13(a) with the SEC or (ii) the Issuer elects to provide to the Trustee reports which, if filed with the SEC, would satisfy (in the good faith judgment of the Issuer) the reporting requirements of Section 13(a) or 15(d) of the Exchange Act (other than the provision of GAAP information, certifications, exhibits or information as to internal controls and procedures), for so long as it elects, the Issuer will make available to the Trustee such annual reports, information, documents and other reports that the Issuer is, or would be, required to file with the SEC pursuant to such Section 13(a) or 15(d).

All reports provided pursuant to this "Reports" covenant shall be in English, or with a certified English translation.

Subject to compliance with the next succeeding paragraph, in the event that, and for so long as, the equity securities of the Issuer, the Target or any Parent Entity or IPO Entity are listed on the Main Market of the London Stock Exchange (or one or more of the equivalent regulated markets of the Frankfurt Stock Exchange, the Irish Stock Exchange, the Luxembourg Stock Exchange or the New York Stock Exchange) and the Issuer, the Target or such Parent Entity or IPO Entity is subject to the admission and disclosure standards applicable to issuers of equity securities admitted to trading on the Main Market of the London Stock Exchange (or the equivalent standards applicable to issuers of equity securities admitted to trading on one or more of the equivalent regulated markets of the Frankfurt Stock Exchange, the Irish Stock Exchange, the Luxembourg Stock Exchange or the New York Stock Exchange), for so long as it elects, the Issuer will make available to the Trustee such annual reports, information, documents and other reports that the Issuer is, or would be, required to file with the London Stock Exchange (or one or more of the equivalent regulated markets of the Frankfurt Stock Exchange, the Irish Stock Exchange, the Luxembourg Stock Exchange or the New York Stock Exchange) pursuant to such admission and disclosure standards (or the applicable standards of one or more of the equivalent regulated markets of the Frankfurt Stock Exchange, the Irish Stock Exchange, the Luxembourg Stock Exchange or the New York Stock Exchange, as applicable). Upon complying with the foregoing requirements, and *provided* that such requirements require the Issuer, the Target or any Parent Entity or IPO Entity to prepare and file annual reports, information, documents and other reports with the Main Market of the London Stock Exchange, or one or more of the equivalent regulated markets of the Frankfurt Stock Exchange, the Irish Stock Exchange, the Luxembourg Stock Exchange or the New York Stock Exchange, as applicable, the Issuer will be deemed to have complied with the provisions contained in the preceding paragraphs.

The Issuer may comply with any requirement to provide reports or financial statements under this covenant by providing any report or financial statements of a direct or indirect Parent Entity of the Issuer so long as such reports (if an annual, half yearly or quarterly report) (a) meet the requirements (including as to content and time of delivery) of this covenant as if references to the Issuer therein were references to such Parent Entity and (b) include condensed consolidated financial information together with separate columns for: (i) such Parent Entity; (ii) the Issuer and the Restricted Subsidiaries on a combined basis; (iii) any other Subsidiaries of the Parent Entity that are not the Issuer or Subsidiaries of the Issuer on a combined basis; (iv) consolidating adjustments; and (v) the total consolidated amounts. Upon complying with the foregoing requirement, the Issuer will be deemed to have complied with the provisions contained in the preceding paragraphs.

Notwithstanding the foregoing, for purposes of this covenant, the Issuer shall be permitted to use financial statements of the Target Group with respect to periods commencing prior to the Control Date; *provided* that the Issuer also provides separate columns (to the extent applicable) relating to the Issuer as described

in clause (b) of the immediately preceding paragraph, and, when making any calculation required under the Senior Secured Notes Indenture, includes the Indebtedness of the Issuer, as applicable.

### ***Impairment of Security Interest***

The Issuer shall not, and shall not permit any Restricted Subsidiary or the Company to, take or knowingly or negligently omit to take any action that would have the result of materially impairing the Security Interest with respect to the Collateral (it being understood, subject to the proviso below, that the Incurrence of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the Security Interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Issuer shall not, and shall not permit any Restricted Subsidiary or the Company to, grant to any Person other than the Security Agent, for the benefit of the Trustee and the Holders and the other beneficiaries described in the Senior Secured Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement, any interest whatsoever in any of the Collateral, *except* that (i) the Issuer, the Company and the Restricted Subsidiaries may amend, extend, renew, restate, supplement, release or otherwise modify or replace any Senior Secured Security Documents for the purposes of Incurring Permitted Collateral Liens, (ii) the Issuer, the Company and the Restricted Subsidiaries may amend, extend, renew, restate, supplement, release or otherwise modify or replace any Senior Secured Security Documents for the purposes of undertaking a Permitted Reorganization, (iii) the Collateral may be discharged and released in accordance with the Senior Secured Notes Indenture, the applicable Senior Secured Security Documents or the Intercreditor Agreement or any Additional Intercreditor Agreement, (iv) the applicable Senior Secured Security Documents may be amended from time to time to cure any ambiguity, mistake, omission, defect, error or inconsistency therein and (v) the Issuer, the Company and the Restricted Subsidiaries may amend the Security Interests in any manner that does not adversely affect Holders in any material respect; *provided, however*, that in the case of clause (i), (ii) and (v) above, the Senior Secured Security Documents may not be amended, extended, renewed, restated, supplemented, released or otherwise modified or replaced pursuant to clause (i), (ii) or (v) above, unless contemporaneously with any such action, the Issuer delivers to the Trustee, either (1) a solvency opinion, in a form reasonably satisfactory to the Trustee from an Independent Financial Advisor confirming the solvency of the Issuer and its Subsidiaries, taken as a whole (or, in the case of any relevant action with respect to Senior Secured Security Documents to which the Company is party as a security grantor, confirming the solvency of the Company), after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, release, modification or replacement, (2) a certificate from the Board of Directors of the relevant Person, in a form satisfactory to the Trustee, which confirms the solvency of the Person granting such Security Interest, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, release, modification or replacement, or (3) an Opinion of Counsel, in a form reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, release, modification or replacement, the Lien or Liens created under the Senior Secured Security Documents, so amended, extended, renewed, restated, supplemented, released, modified or replaced are valid Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, release, modification or replacement. In the event that the Issuer, the Company or an applicable Restricted Subsidiary complies with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to any amendment, extension, renewal, restatement, supplement, release or other modification or replacement requested in accordance with this covenant without the need for instructions from any Holder.

### ***Additional Guarantees***

Notwithstanding anything to the contrary in this covenant, no Restricted Subsidiary shall Guarantee the Indebtedness outstanding under the Senior Facilities, any Credit Facility or any Public Debt, in each case of the Issuer or a Guarantor unless such Restricted Subsidiary is or becomes a Guarantor on the date on which the Guarantee of such other Indebtedness is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture substantially in the form attached to the Senior Secured Notes Indenture pursuant to which such Restricted Subsidiary will provide a Senior Secured Notes Guarantee, which Senior Secured Notes Guarantee will be senior to or *pari passu* with, as applicable, such Restricted Subsidiary's Guarantee of such other Indebtedness; *provided, however*, that such Restricted Subsidiary shall not be obligated to become such a Guarantor to the extent and for so long as the Incurrence of such Senior

Secured Notes Guarantee is contrary to the Agreed Security Principles or could give rise to or result in: (1) any breach or violation of statutory limitations, corporate benefit, financial assistance, fraudulent preference, thin capitalization rules, capital maintenance rules, guidance and coordination rules or the laws rules or regulations (or analogous restriction) of any applicable jurisdiction; (2) any risk or liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out of pocket expenses. At the option of the Issuer, any Senior Secured Notes Guarantee may contain limitations on Guarantor liability to the extent reasonably necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Future Senior Secured Notes Guarantees granted pursuant to this provision shall be released as set forth under “*Senior Secured Notes Guarantees—Senior Secured Notes Guarantee Release.*” A Senior Secured Notes Guarantee of a future Guarantor may also be released at the option of the Issuer if at the date of such release there is no Indebtedness of such Guarantor outstanding which was Incurred after the Original Issue Date and which could not have been Incurred in compliance with the Senior Secured Notes Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. The Trustee and the Security Agent shall each take all necessary actions, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, reasonably requested by, and at the cost of, the Issuer to effectuate any release of a Senior Secured Notes Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

The validity and enforceability of the Senior Secured Notes Guarantees and the Security Interests and the liability of each Guarantor will be subject to the limitations as described and set out in “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—Corporate benefit, financial assistance laws, capital maintenance and other limitations on the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral may adversely affect the validity and enforceability of the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral*” and “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests.*”

#### ***Additional Intercreditor Agreements***

The Senior Secured Notes Indenture provides that, at the request of the Issuer, in connection with the Incurrence by the Issuer, the Company or any Restricted Subsidiary of (x) any Indebtedness secured on Collateral or as otherwise required herein and (y) any Refinancing Indebtedness in respect of Indebtedness referred to in the foregoing clause (x), the Issuer, the relevant Restricted Subsidiaries, the Trustee and the Security Agent shall enter into with the holders of such Indebtedness (or their duly authorized representatives) an intercreditor agreement (an “*Additional Intercreditor Agreement*”) or a restatement, amendment or other modification of the existing Intercreditor Agreement on substantially the same terms as the Intercreditor Agreement (or terms not materially less favorable to the Holders (taken as a whole)), including substantially the same terms with respect to release of Senior Secured Notes Guarantees and priority and release of the Security Interests; *provided* that (1) such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, as applicable, adversely affect the rights, duties, liabilities, indemnities or immunities of the Trustee or Security Agent under the Senior Secured Notes Indenture, any Additional Intercreditor Agreement or the Intercreditor Agreement and (2) if more than one such intercreditor agreement is outstanding at any time, the correlative terms of such intercreditor agreements must not conflict.

The Senior Secured Notes Indenture also provides that, at the direction of the Issuer and without the consent of Holders, the Trustee and the Security Agent shall from time to time enter into one or more amendments to the Intercreditor Agreement or any Additional Intercreditor Agreement to: (1) cure any ambiguity, omission, defect, manifest error or inconsistency of any such agreement, (2) increase the amount or types of Indebtedness covered by any such agreement that may be Incurred by the Issuer or any Restricted Subsidiary that is subject to any such agreement (including with respect to any Intercreditor Agreement or Additional Intercreditor Agreement, the addition of provisions relating to new Indebtedness ranking junior in right of payment to the Senior Secured Notes), (3) add Restricted Subsidiaries to the Intercreditor Agreement or an Additional Intercreditor Agreement, (4) further secure the Senior Secured

Notes (including Additional Senior Secured Notes), (5) make provision for equal and ratable pledges of the Collateral to secure Additional Senior Secured Notes, (6) implement any Permitted Collateral Liens, (7) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof or (8) make any other change to any such agreement that does not adversely affect the Holders (taken as a whole) in any material respect, making all necessary provisions to ensure that the Senior Secured Notes and the Senior Secured Notes Guarantees are secured by first-ranking Liens over the Collateral. The Issuer shall not otherwise direct the Trustee or the Security Agent to enter into any amendment to any Intercreditor Agreement or Additional Intercreditor Agreement without the consent of the Holders of the majority in aggregate principal amount of the Senior Secured Notes then outstanding, except as otherwise permitted below under “*Amendments and Waivers*,” and the Issuer may only direct the Trustee and the Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, adversely affect their respective rights, duties, liabilities, indemnities or immunities under the Senior Secured Notes Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Senior Secured Notes Indenture also provides that, in relation to any Intercreditor Agreement or Additional Intercreditor Agreement, the Trustee (and Security Agent, if applicable) shall consent on behalf of the Holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Senior Secured Notes thereby; *provided, however*, that such transaction would comply with the covenant described under “*—Limitation on Restricted Payments*.”

The Senior Secured Notes Indenture also provides that each Holder, by accepting a Senior Secured Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor Agreement, (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have directed the Trustee and the Security Agent to enter into any such Additional Intercreditor Agreement. A copy of the Intercreditor Agreement and any Additional Intercreditor Agreement shall be made available for inspection during normal business hours on any Business Day upon prior written request at our offices.

#### ***Limitation on Activities of the Issuer***

The Issuer shall not carry on any business or own any material assets other than:

- (1) the Incurrence, Guarantee, offering, sale, issuance and servicing, listing, purchase, redemption, exchange, refinancing or retirement of Indebtedness (and guarantees thereof, including the Senior Notes Guarantees) permitted by the terms of the Senior Secured Notes Indenture or performance of the terms and conditions of such Indebtedness, to the extent such activities are otherwise permissible under the Senior Secured Notes Indenture, and the granting of any Liens permitted pursuant to the covenant described above under the caption “*—Limitation on Liens*”;
- (2) (i) rights and obligations arising under the Senior Secured Notes Indenture, any Credit Facility, the Intercreditor Agreement (including any Additional Intercreditor Agreement) and the Senior Secured Security Documents or any other agreement of the Issuer and the Restricted Subsidiaries existing on the Original Issue Date or to which it is or becomes a party or (ii) undertaken with the purpose of, or directly related to, the fulfilling of any other obligations under any Indebtedness permitted by the Senior Secured Notes Indenture;
- (3) the ownership of (i) cash and Cash Equivalents, (ii) the Capital Stock and other equity instruments of the Target or any direct or indirect parent company of the Target and intercompany loans made to the Target or any direct or indirect parent company or Subsidiary of the Target and (iii) other property, in each case to the extent contributed substantially concurrently to a Parent Entity to the extent such contribution is not prohibited by the terms of the Senior Secured Notes Indenture;
- (4) making Investments in the Senior Secured Notes (including any Additional Senior Secured Notes) or any other Indebtedness to the extent such Investment is not prohibited by the terms of the Senior Secured Notes Indenture;
- (5) (i) involving the provision of administrative, managerial, legal, treasury (including those related to overhead costs, paying filing fees and other ordinary course expenses (such as audit fees and Taxes), treasury services and cash pooling arrangements) and accounting services as to itself and as to its Subsidiaries of a type customarily provided by a holding company to its Subsidiaries as to itself and the receipt of any amounts related thereto and (ii) the fulfilment of any periodic reporting requirements;



- (6) related or reasonably incidental to the establishment and/or maintenance of its and its Subsidiaries' corporate existence;
- (7) the making or receipt (i) of any Restricted Payment, Permitted Payment or Permitted Investment permitted by the terms of the Senior Secured Notes Indenture, (ii) any Asset Disposition permitted by the terms of the Senior Secured Notes Indenture and (iii) an offering, issuance, sale or other disposition of its Capital Stock to a Parent Entity to the extent not otherwise prohibited by the terms of the Senior Secured Notes Indenture;
- (8) relating to the lending of proceeds of Indebtedness and Equity Offerings to Restricted Subsidiaries, whether as Subordinated Shareholder Funding or otherwise;
- (9) conducting activities in preparation for, directly related to or reasonably incidental to, any Initial Public Offering, Equity Offering, Change of Control or asset disposition, including the maintenance of any listing of equity interests issued by an IPO Entity;
- (10) any liabilities or obligations in connection with any employee or participation scheme, including any management equity plan, incentive plan or other similar scheme operated by, for the benefit of, on behalf of or in respect of itself or any Restricted Subsidiary (and/or any current or past employees, directors or members of management thereof and any related corporate entity established for such purpose);
- (11) pursuant to or in connection with the Transactions or in the manner specifically contemplated in the Tax Structure Memorandum and any step or action taken (or relating to a step or action taken) by the Issuer in relation thereto prior to the Original Issue Date or pursuant to or in connection with any Permitted Holdco Transaction or Permitted Reorganization; or
- (12) other activities not specifically enumerated above that are ancillary or *de minimis* in nature.

## **Merger and Consolidation**

### ***The Issuer***

The Issuer will not consolidate with or merge with or into, or assign, convey, transfer or lease or otherwise dispose of all or substantially all of its assets, in one transaction or a series of related transactions, to any Person, unless:

- (1) the resulting, surviving or transferee Person (the "*Successor Issuer*") will be a Person organized and existing under the laws of any member state of the European Union, or the United States of America, any State of the United States or the District of Columbia, Canada or any province of Canada, Norway or Switzerland and the Successor Issuer (if not the Issuer) will expressly assume, by supplemental indenture, executed and delivered to the Trustee, all the obligations of the Issuer under the Senior Secured Notes and the Senior Secured Notes Indenture and all obligations of the Issuer under the Intercreditor Agreement, any Additional Intercreditor Agreement and the Senior Secured Security Documents, as applicable;
- (2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the applicable Successor Issuer or any Subsidiary of the applicable Successor Issuer as a result of such transaction as having been Incurred by the applicable Successor Issuer or such Subsidiary at the time of such transaction), no Default has occurred and is continuing;
- (3) immediately after giving effect to such transaction, either (a) the Issuer or the applicable Successor Issuer would be able to Incur at least an additional €1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "*Certain Covenants—Limitation on Indebtedness*" or (b) the Fixed Charge Coverage Ratio of the Issuer and the Restricted Subsidiaries would not be lower than it was immediately prior to giving effect to such transaction; and
- (4) the Issuer or the Successor Issuer, as the case may be, shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger or transfer and such supplemental indenture (in the case of a Successor Issuer) comply with the Senior Secured Notes Indenture and an Opinion of Counsel to the effect that such supplemental indenture (in the case of a Successor Issuer) is a legal and binding agreement enforceable against the Successor Issuer, *provided* that in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact, including as to satisfaction of clauses (1), (2) and (3) above.



The Successor Issuer will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Senior Secured Notes and the Senior Secured Notes Indenture, but in a case of a lease of all or substantially all of its assets, the predecessor Person will not be released from its obligations under the Senior Secured Notes Indenture or the Senior Secured Notes.

#### ***Guarantors***

No Guarantor may:

- (1) consolidate with or merge with or into any Person; or
- (2) sell, assign, convey, transfer, lease or dispose of, all or substantially all its assets, in one transaction or a series of related transactions, to any Person; or
- (3) permit any Person to merge with or into such Guarantor, unless:
  - (A) the other Person is the Issuer or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor substantially concurrently with such transaction;
  - (B) (1) either (x) the Issuer or another Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes all of the obligations of the Guarantor under its Senior Secured Notes Guarantee and the Senior Secured Notes Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Senior Secured Security Documents, as applicable and (2) immediately after giving effect to such transaction, no Default has occurred and is continuing; or
  - (C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (in each case other than to the Issuer or a Restricted Subsidiary) otherwise not prohibited by the Senior Secured Notes Indenture.

The provisions set forth in this “*Merger and Consolidation*” covenant shall not restrict (and shall not apply to): (i) any Restricted Subsidiary that is not a Guarantor from consolidating with, merging or liquidating into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary that is not a Guarantor; (ii) any Guarantor from merging or liquidating into or transferring all or part of its properties and assets to the Issuer or another Guarantor; (iii) any consolidation or merger of the Issuer into any Guarantor; *provided* that (A) if the Issuer is not the surviving entity of such merger or consolidation, the relevant Guarantor will assume the obligations of the Issuer under the Senior Secured Notes, the Senior Secured Notes Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Senior Secured Security Documents and clauses (1) and (4) under the heading “—*The Issuer*” shall apply to such transaction; and (B) to the extent that any Security Interest previously granted over the shares in the capital of the relevant Guarantor would not, in accordance with applicable law, constitute a Lien over the shares in the capital of the surviving entity, the direct holding company of the relevant surviving entity shall, subject to the Agreed Security Principles, grant a Security Interest over the shares in the capital of such surviving entity on substantially equivalent terms to any Security Interest granted over the shares in the capital of such predecessor Guarantor immediately prior to such merger or consolidation; or (iv) the Issuer or any Guarantor consolidating into or merging or combining with an Affiliate incorporated or organized for the purpose of changing the legal domicile of such entity, reincorporating such entity in another jurisdiction, or changing the legal form of such entity; *provided, however*, that clauses (1), (2) and (4) under the heading “—*The Issuer*” or clause (3) under this heading “*Guarantors*,” as the case may be, shall apply to any such transaction; or (v) any Permitted Holdco Transaction.

The foregoing provisions (other than the requirements of clause (2) of the first paragraph under the heading “—*The Issuer*”) shall not apply to the creation of a new Subsidiary as a Restricted Subsidiary. Notwithstanding the foregoing, the Transactions and any Permitted Holdco Transactions will be permitted without compliance with this section.

There is no precise established definition of the phrase “substantially all” under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

## Events of Default

Each of the following is an Event of Default under the Senior Secured Notes Indenture:

- (1) default in any payment of interest on any Senior Secured Note when due and payable, continued for 30 days;
- (2) default in the payment of the principal amount of or premium, if any, on any Senior Secured Note when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;
- (3) failure by the Issuer or any Guarantor to comply for 60 days after written notice by the Trustee on behalf of the Holders or by the Holders of at least 30% in aggregate principal amount of the outstanding Senior Secured Notes with any agreement or obligation contained in the Senior Secured Notes Indenture;
- (4) the occurrence of any default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any Significant Subsidiary (or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and the Restricted Subsidiaries) would constitute a Significant Subsidiary) (or the payment of which is Guaranteed by the Issuer or any Significant Subsidiary (or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and the Restricted Subsidiaries or, in respect of the period prior to the availability of audited consolidated financial statements for the Issuer following the Original Issue Date, as of the latest audited consolidated financial statements for the Target Group) would constitute a Significant Subsidiary)) other than Indebtedness owed to the Issuer or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the date hereof, which default:
  - (a) is caused by a failure to pay principal of such Indebtedness, at its stated final maturity (after giving effect to any applicable grace periods) provided in such Indebtedness (“*payment default*”); or
  - (b) results in the acceleration of such Indebtedness prior to its stated final maturity (the “*cross acceleration provision*”),and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default of principal at its stated final maturity (after giving effect to any applicable grace periods) or the maturity of which has been so accelerated, aggregates €50.0 million or more at any time outstanding;
- (5) certain events of bankruptcy, insolvency or court protection of the Issuer or a Significant Subsidiary (or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and the Restricted Subsidiaries) would constitute a Significant Subsidiary) (the “*bankruptcy provisions*”);
- (6) failure by the Issuer or a Significant Subsidiary (or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and the Restricted Subsidiaries) would constitute a Significant Subsidiary) to pay final judgments aggregating in excess of €50.0 million other than any judgments covered by indemnities provided by, or insurance policies issued by, reputable and creditworthy companies, which final judgments remain unpaid, undischarged and unstayed for a period of more than 60 days (after receipt of notice as described in the next succeeding paragraph) after such judgment becomes final, and in the event such judgment is covered by insurance, an enforcement proceeding has been commenced by any creditor upon such judgment or decree which is not promptly stayed (the “*judgment default provision*”);
- (7) any Security Interest under the Senior Secured Security Documents having a fair market value in excess of €20.0 million shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Senior Secured Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Senior Secured Notes Indenture) for any reason other than the satisfaction in full of all obligations under the Senior Secured Notes Indenture or the release of any such Security Interest in accordance with the terms of the Senior Secured Notes Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Senior Secured Security Documents or any such Security Interest created thereunder shall be declared invalid or

unenforceable or the Issuer or any Restricted Subsidiary shall assert in writing that any such Security Interest is invalid or unenforceable and any such Default continues for 10 days; and

- (8) except as permitted under the Senior Secured Notes Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement (including with respect to any limitations), any Senior Secured Notes Guarantee of a Guarantor that is a Significant Subsidiary (or any group of Guarantors that, taken together (as of the latest audited consolidated financial statements for the Issuer and the Restricted Subsidiaries) would constitute a Significant Subsidiary) is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Guarantor that is a Significant Subsidiary (or any group of Guarantors that, taken together (as of the latest audited consolidated financial statements for the Issuer and the Restricted Subsidiaries) would constitute a Significant Subsidiary), or any Person acting on behalf of any such Guarantor or Guarantors, denies or disaffirms its obligations under its Senior Secured Notes Guarantee.

However, a Default under clauses (4) or (6) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of at least 30% in aggregate principal amount of the outstanding Senior Secured Notes notify the Issuer of the Default and, with respect to clauses (4) and (6), the Issuer does not cure such Default within 60 days after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (5) above) occurs and is continuing, the Trustee by written notice to the Issuer or the Holders of at least 30% in aggregate principal amount of the outstanding Senior Secured Notes by written notice to the Issuer and the Trustee may, and the Trustee (subject to certain conditions) at the request of such Holders shall, declare the principal of and accrued and unpaid interest, if any, on all the Senior Secured Notes to be due and payable. Upon such a declaration, such principal and accrued and unpaid interest, if any, will be due and payable immediately. In the event of a declaration of acceleration of the Senior Secured Notes because an Event of Default described in clause (4) under “*Events of Default*” has occurred and is continuing, the declaration of acceleration of the Senior Secured Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (4) shall be remedied or cured, or waived by the holders of the Indebtedness, or the Indebtedness that gave rise to such Event of Default shall have been discharged in full, in each case, within 30 days after the declaration of acceleration with respect thereto and the annulment of the acceleration of the Senior Secured Notes would not conflict with any judgment or decree of a court of competent jurisdiction.

If an Event of Default described in clause (5) above with respect to the Issuer occurs and is continuing, the principal of and accrued and unpaid interest, if any, on all the Senior Secured Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

Holders may not enforce the Senior Secured Notes Indenture or the Senior Secured Notes except as provided in the Senior Secured Notes Indenture and may not enforce the Senior Secured Security Documents except as provided in such Senior Secured Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Holders of a majority in principal amount of the outstanding Senior Secured Notes under the Senior Secured Notes Indenture may waive all past or existing Defaults or Events of Default (except with respect to nonpayment of principal, premium, interest or Additional Amounts, if any, on any Senior Secured Note held by a non-consenting Holder, which may only be waived with the consent of Holders of not less than 90% of the aggregate principal amount of the outstanding Senior Secured Notes) and rescind any such acceleration with respect to such Senior Secured Notes and its consequences (including the payment default that resulted from such acceleration) if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

The Senior Secured Notes Indenture provides that (i) if a Default for a failure to report or failure to deliver a required certificate in connection with another default (the “*Initial Default*”) occurs, then at the time such Initial Default is cured, such Default for a failure to report or failure to deliver a required certificate in connection with another default that resulted solely because of that Initial Default will also be cured without any further action and (ii) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled “*Certain Covenants—Reports*” or otherwise to deliver any notice or certificate pursuant to any other provision of the Senior Secured Notes Indenture shall be deemed to be cured upon the delivery of any such report required by such covenant or such notice or

certificate, as applicable, even though such delivery is not within the prescribed period specified in the Senior Secured Notes Indenture.

The Trustee will be under no obligation to exercise any of the rights or powers under the Senior Secured Notes Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee in its sole discretion against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no Holder may pursue any remedy with respect to the Senior Secured Notes Indenture or the Senior Secured Notes unless:

- (1) such Holder has previously given the Trustee written notice that an Event of Default is continuing;
- (2) Holders of at least 30% in principal amount of the outstanding Senior Secured Notes have requested in writing the Trustee to pursue the remedy;
- (3) such Holders have offered in writing and, if requested, provided to the Trustee security and/or indemnity satisfactory to the Trustee in its sole discretion against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt of the written request and the offer of security and/or indemnity; and
- (5) the Holders of a majority in principal amount of the outstanding Senior Secured Notes have not given the Trustee a written direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Senior Secured Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee.

The Senior Secured Notes Indenture provides that, in the event an Event of Default has occurred and is continuing, of which a responsible officer of the Trustee has received written notice, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Senior Secured Notes Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Senior Secured Notes Indenture, the Trustee will be entitled to indemnification and/or security satisfactory to the Trustee in its sole discretion against all fees, losses, liabilities and expenses caused by taking or not taking such action.

The Senior Secured Notes Indenture provides that if a Default occurs and is continuing and the Trustee is informed in writing of such occurrence by the Issuer, the Trustee must give notice of the Default to the Holders within 60 days after being notified by the Issuer. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Senior Secured Note, the Trustee may withhold notice if and so long as the Trustee in good faith determines that withholding notice is in the interests of the Holders.

The Issuer is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Issuer is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

#### **Amendments and Waivers**

Subject to certain exceptions, the Senior Secured Notes Documents may be amended, supplemented or otherwise modified with the consent of Holders of at least a majority in principal amount of the Senior Secured Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of at least a majority in principal amount of the Senior Secured Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes). However, without the consent of Holders holding not less than 90% (or, in the case of clause (9) below, 75%) of the

then outstanding principal amount of the Senior Secured Notes, an amendment or waiver may not, with respect to any Senior Secured Notes held by a non-consenting Holder:

- (1) reduce the stated rate of or extend the stated time for payment of interest on any such Senior Secured Note (other than provisions relating to Change of Control and Asset Dispositions);
- (2) reduce the principal of or extend the Stated Maturity of any such Senior Secured Note (other than provisions relating to Change of Control and Asset Dispositions);
- (3) reduce the premium payable upon the redemption of any such Senior Secured Note or change the time at which any such Senior Secured Note may be redeemed, in each case as described above under “Optional Redemption” or “Redemption for Taxation Reasons”;
- (4) make any such Senior Secured Note payable in currency other than that stated in such Senior Secured Note;
- (5) impair the right of any Holder to institute suit for the enforcement of any payment of principal of, or interest or Additional Amounts, if any, on such Holder’s Senior Secured Notes on or after the due dates therefor;
- (6) make any change in the provision of the Senior Secured Notes Indenture described under “Withholding Taxes” that adversely affects the right of any Holder of such Senior Secured Notes in any material respect or amends the terms of such Senior Secured Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the applicable Payor agrees to pay Additional Amounts, if any, in respect thereof;
- (7) release all or substantially all Security Interests granted for the benefit of the Holders in the Collateral (taken as a whole) other than in accordance with the terms of the Senior Secured Security Documents, the Intercreditor Agreement, any applicable Additional Intercreditor Agreement and the Senior Secured Notes Indenture; *provided* that, for the avoidance of doubt and without prejudice to the covenant described under the heading “Certain Covenants—Impairment of Security Interest,” the release of less than all or substantially all Security Interests granted for the benefit of the Holders in the Collateral (taken as a whole) shall only require the consent of Holders of at least a majority in principal amount of the Senior Secured Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of at least a majority in principal amount of the Senior Secured Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes);
- (8) waive a Default or Event of Default with respect to the nonpayment of principal, premium or interest or Additional Amounts, if any (except pursuant to a rescission of acceleration of the Senior Secured Notes by the Holders of at least a majority in principal amount of such Senior Secured Notes and a waiver of the payment default that resulted from such acceleration);
- (9) release any Guarantor from any of its obligations under its Senior Secured Notes Guarantee or the Senior Secured Notes Indenture, except in accordance with the terms of the Senior Secured Notes Indenture and the Intercreditor Agreement; or
- (10) reduce the principal amount of Senior Secured Notes whose holders must consent to any amendment, waiver or modification or make any other change in the amendment or waiver provisions which require the Holders’ consent described in this sentence.

For the avoidance of doubt, no amendment to, or deletion of, or actions taken in compliance with, the covenants described under “Certain Covenants” shall be deemed to impair or affect any rights of Holders to receive payment of principal of, or interest or premium, if any, on the Senior Secured Notes.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, the Trustee and the other parties thereto, as applicable, may amend or supplement any Senior Secured Notes Documents to:

- (1) cure any ambiguity, omission, mistake, defect, error or inconsistency;
- (2) provide for the assumption by a successor Person of the obligations of the Issuer or a Guarantor under any Senior Secured Notes Document;



- (3) add to the covenants or provide for a Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Issuer or any Restricted Subsidiary;
- (4) make any change that would provide additional rights or benefits to the Trustee or the Holders or make any change (including changing the ISIN or other identifying number on any Senior Secured Notes) that does not adversely affect the rights of the Trustee or any Holder in any material respect;
- (5) make such provisions as necessary (as determined in good faith by the Board of Directors or a member of senior management of the Issuer) for the issuance of Additional Senior Secured Notes that may be issued in compliance with the Senior Secured Notes Indenture;
- (6) provide for any Restricted Subsidiary to provide a Guarantee in accordance with the covenant described under “*Certain Covenants—Limitation on Indebtedness*” or “*Certain Covenants—Additional Guarantees*,” to add Senior Secured Notes Guarantees with respect to the Senior Secured Notes, to add security to or for the benefit of the Senior Secured Notes, or to confirm and evidence the release, termination, discharge or retaking of any Senior Secured Notes Guarantee or Lien with respect to or securing the Senior Secured Notes when such release, termination, discharge or retaking is provided for under the Senior Secured Notes Indenture, the Senior Secured Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement;
- (7) to conform the text of the Senior Secured Notes Indenture, the Senior Secured Security Documents or the Senior Secured Notes to any provision of this “*Description of the Senior Secured Notes*” to the extent that such provision in this “*Description of the Senior Secured Notes*” was intended to be a verbatim recitation of a provision of the Senior Secured Notes Indenture, the Senior Secured Security Documents or the Senior Secured Notes;
- (8) evidence and provide for the acceptance and appointment under the Senior Secured Notes Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement of a successor Trustee pursuant to the requirements thereof or to provide for the accession by the Trustee to any Senior Secured Notes Document;
- (9) in the case of the Senior Secured Security Documents, to mortgage, pledge, hypothecate or grant a Security Interest in favor of the Security Agent for the benefit of the Holders or parties to the Senior Facilities, in any property which is required by the Senior Secured Security Documents or the Senior Facilities (as in effect on the Original Issue Date) to be mortgaged, pledged or hypothecated, or in which a Security Interest is required to be granted to the Security Agent, or to the extent necessary to grant a Security Interest in the Collateral for the benefit of any Person; *provided* that the granting of such Security Interest is not prohibited by the Senior Secured Notes Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement and the covenant described under “*Certain Covenants—Impairment of Security Interest*” is complied with;
- (10) make any amendment to the provisions of the Senior Secured Notes Indenture relating to the transfer and legending of Senior Secured Notes as permitted by the Senior Secured Notes Indenture, including to facilitate the issuance and administration of Senior Secured Notes; *provided, however*, that (i) compliance with the Senior Secured Notes Indenture as so amended would not result in Senior Secured Notes being transferred in violation of the Securities Act or any other applicable securities law and (ii) such amendment does not adversely affect the rights of Holders to transfer Senior Secured Notes in any material respect;
- (11) facilitate any transaction that complies with the covenants described under the headings “*Merger and Consolidation*” and “*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*” relating to mergers, consolidations and sales of assets; or
- (12) as provided in “*Certain Covenants—Additional Intercreditor Agreements*.”

In formulating its decisions on such matters, the Trustee shall be entitled to require and rely absolutely on such evidence as it deems appropriate, including Officer’s Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the Senior Secured Notes Indenture to approve the particular form of any proposed amendment of any Senior Secured Notes Document. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Senior Secured Notes Indenture by any Holder of Senior Secured Notes given in connection with a tender of such Holder’s Senior Secured Notes will not be rendered invalid by such tender. The

Senior Secured Notes Indenture does not contain a covenant regulating the offer and/or payment of a consent fee to Holders.

### **Defeasance**

The Issuer at any time may terminate all obligations of the Issuer and the Guarantors under the Senior Secured Notes Documents (“*legal defeasance*”) and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Senior Secured Notes, registrations of Senior Secured Notes, mutilated, destroyed, lost or stolen Senior Secured Notes and the maintenance of an office or agency for payment and money for security payments held in trust. Subject to the foregoing, if the Issuer exercises its legal defeasance option, the Senior Secured Security Documents and the rights of the Trustee and the Holders under the Intercreditor Agreement or any Additional Intercreditor Agreement in effect at such time will terminate (other than with respect to the defeasance trust).

The Issuer at any time may terminate the obligations of it and the Restricted Subsidiaries under the covenants described under “*Certain Covenants*” (other than clauses (1), (2) and (4) of “*Merger and Consolidation—The Issuer*”) and “*Change of Control*” and the default provisions relating to such covenants described under “*Events of Default*” above, the operation of the cross-default upon a payment default, the cross acceleration provisions, the bankruptcy provisions (other than with respect to the Issuer), the judgment default provision, the guarantee provision and the security default provisions described under “*Events of Default*” above (“*covenant defeasance*”).

The Issuer at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Senior Secured Notes may not be accelerated because of an Event of Default with respect to the Senior Secured Notes. If the Issuer exercises its covenant defeasance option with respect to the Senior Secured Notes, payment of the Senior Secured Notes may not be accelerated because of an Event of Default specified in clause (3) (other than clauses (1), (2) and (4) of “*Merger and Consolidation—The Issuer*”), (4), (5) (with respect only to the Issuer and Significant Subsidiaries (or a group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and the Restricted Subsidiaries) would constitute a Significant Subsidiary) of the Issuer), (6), (7) or (8) under “*Events of Default*” above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the “*defeasance trust*”) with the Trustee cash in Euros or European Government Obligations or a combination thereof for the payment of principal, premium, if any, and interest on the Senior Secured Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

- (1) an Opinion of Counsel, subject to customary assumptions and exclusions, to the effect that Holders, in their capacity as Holders, will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the U.S. Internal Revenue Service or change in applicable U.S. federal income tax law since the issuance of the Senior Secured Notes);
- (2) an Officer’s Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Issuer; and
- (3) an Officer’s Certificate and an Opinion of Counsel (which opinion of counsel may be subject to customary assumptions and exclusions), each stating that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with.

### **Satisfaction and Discharge**

The Senior Secured Notes Indenture, and the rights of the Trustee and the Holders under the Intercreditor Agreement and any Additional Intercreditor Agreement and the Senior Secured Security Documents will be discharged and cease to be of further effect (except as to surviving rights of transfer or exchange of the Senior Secured Notes and rights of the Trustee, as expressly provided for in the Senior Secured Notes Indenture) as to all Senior Secured Notes when (1) either (a) all the Senior Secured Notes previously

authenticated and delivered (other than certain lost, stolen or destroyed Senior Secured Notes and certain Senior Secured Notes for which provision for payment was previously made and thereafter the funds have been released to the Issuer) have been delivered to the Trustee for cancellation; or (b) all Senior Secured Notes not previously delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer; (2) the Issuer has deposited or caused to be deposited with the Trustee, money in Euros or European Government Obligations, or a combination thereof, as applicable, in an amount sufficient to pay and discharge the entire Indebtedness on the Senior Secured Notes not previously delivered to the Trustee for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Senior Secured Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Issuer has paid or caused to be paid all other sums payable under the Senior Secured Notes Indenture; (4) the Issuer has delivered irrevocable instructions to the Trustee under the Senior Secured Notes Indenture to apply the deposited money toward the payment of the Senior Secured Notes at maturity or on the redemption date, as the case may be; and (5) the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel each stating that all conditions precedent under the "*Satisfaction and Discharge*" section of the Senior Secured Notes Indenture relating to the satisfaction and discharge of the Senior Secured Notes Indenture have been complied with; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)). If requested in writing by the Issuer, the Trustee may distribute any amounts deposited to the Holders prior to Stated Maturity or the redemption date, as the case may be; *provided, however*, that the Holders shall have received at least three Business Days' notice from the Issuer of such earlier repayment date (which may be included in the notice of redemption). For the avoidance of doubt, the distribution and payment to Holders prior to the maturity or redemption date as set forth above will not include any negative interest, present value adjustment, break costs or any other premium on such amounts.

#### **No Personal Liability of Directors, Officers, Employees and Shareholders**

No director, officer, employee, incorporator or shareholder of the Issuer or any of its respective Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Issuer or any Guarantor under the Senior Secured Notes Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Senior Secured Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Senior Secured Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

#### **Concerning the Trustee**

U.S. Bank Trustees Limited has been appointed as Trustee under the Senior Secured Notes Indenture. The Senior Secured Notes Indenture provides that, except during the continuance of an Event of Default of which a responsible officer of the Trustee has received written notice, the Trustee will perform only such duties as are set forth specifically in such Senior Secured Notes Indenture. During the existence of an Event of Default of which a responsible officer of the Trustee has received written notice, the Trustee will exercise such of the rights and powers vested in it under the Senior Secured Notes Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Senior Secured Notes Indenture will not be construed as an obligation or duty.

The Senior Secured Notes Indenture imposes certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions with the Issuer and its Affiliates and Subsidiaries.

The Senior Secured Notes Indenture sets out the terms under which the Trustee may retire or be removed and replaced. Such terms will include, among others, (1) that the Trustee may be removed at any time by the Holders of a majority in principal amount of the outstanding Senior Secured Notes, or may resign at any time by giving written notice to the Issuer and (2) that if the Trustee at any time (a) has or acquires a conflict of interest that is not eliminated, (b) fails to meet certain minimum limits regarding the aggregate of its capital and surplus or (c) becomes incapable of acting as Trustee or becomes insolvent or bankrupt,

then the Issuer may remove the Trustee, or any Holder who has been a bona fide Holder for not less than six months may petition any court for removal of the Trustee and appointment of a successor Trustee.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Senior Secured Notes Indenture contains provisions for the indemnification of the Trustee for any loss, liability, taxes and expenses Incurred without gross negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of the Senior Secured Notes Indenture.

## **Notices**

If and for so long as the Senior Secured Notes are listed on the Official List of the Exchange and if and to the extent that the rules of the Authority so require, notices of the Issuer with respect to the Senior Secured Notes will be sent to the Authority.

All notices to Holders will be validly given if electronically delivered or mailed to them at their respective addresses in the register of the Holders, if any, maintained by the Registrar. For so long as any Senior Secured Notes are represented by Global Senior Secured Notes, all notices to Holders will be delivered to Euroclear and Clearstream in accordance with the applicable procedures of Euroclear and Clearstream, delivery of which shall be deemed to satisfy the requirements of this paragraph, which will give such notices to the Holders of Book-Entry Interests.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it. If a notice or communication is given in via Euroclear or Clearstream, it is duly given on the day the notice is given to Euroclear or Clearstream.

## **Prescription**

Claims against the Issuer or any Guarantor for the payment of principal, premium, if any, or Additional Amounts, if any, on the Senior Secured Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or any Guarantor for the payment of interest on the Senior Secured Notes will be prescribed six years after the applicable due date for payment of interest.

## **Currency Indemnity and Calculation of Euro-Denominated Restrictions**

Euro is the sole currency of account and payment for all sums payable by the Issuer and the Guarantors under or in connection with the Senior Secured Notes and the Senior Secured Notes Guarantees, including damages. Any amount received or recovered in a currency other than Euro, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the Euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Euro amount is less than the Euro amount expressed to be due to the recipient or the Trustee under any Senior Secured Note, the Issuer and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Issuer and the Guarantors will indemnify the recipient or the Trustee on a joint and several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be *prima facie* evidence of the matter stated therein for the Holder of a Senior Secured Note or the Trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Senior Secured Note or the Trustee (other than a waiver of the

indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Senior Secured Note or any Senior Secured Notes Guarantee, or to the Trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any Euro-denominated restriction herein, the Euro equivalent amount for purposes hereof that is denominated in a non-Euro currency shall be calculated based on the relevant currency exchange rate in effect on the date such non-Euro amount is Incurred or made, as the case may be.

### **Listing**

Application will be made to The International Stock Exchange Authority Limited for the listing of and permission to deal in the Senior Secured Notes (including the Tap Notes) on the Exchange. There can be no assurance that the application to list the Tap Notes on the Exchange will be approved, that permission to deal in the Tap Notes thereon will be granted or that such listing will be maintained. Settlement of the Tap Notes is not conditioned on obtaining this listing or permission.

### **Enforceability of Judgments**

Since substantially all the assets of the Issuer and the Guarantors are located outside the United States, any judgment obtained in the United States against the Issuer or the Guarantors, including judgments with respect to the payment of principal, premium, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Senior Secured Notes, may not be collectable within the United States.

### **Consent to Jurisdiction and Service**

In relation to any legal action or proceedings arising out of or in connection with the Senior Secured Notes Indenture and the Senior Secured Notes, the Issuer and the Senior Secured Notes Guarantors have irrevocably submitted and, and any additional Guarantors will irrevocably submit, in the Senior Secured Notes Indenture to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City, County and State of New York, in the United States of America. The Senior Secured Notes Indenture provides that the Issuer and each Guarantor will appoint an agent for service of process in any suit, action or proceeding with respect to the Senior Secured Notes Indenture, the Senior Secured Notes and the Senior Secured Notes Guarantees brought in any U.S. federal or New York state court located in the City of New York.

### **Governing Law**

The Senior Secured Notes Indenture and the Senior Secured Notes, and the rights and duties of the parties thereunder, and the Senior Secured Notes Guarantees thereunder, are governed by and construed in accordance with the laws of the State of New York. For the avoidance of doubt, the governing law of the Senior Secured Notes Indenture and the Senior Secured Notes may be amended with the consent of Holders of at least a majority in principal amount of the Senior Secured Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes). The Intercreditor Agreement and the rights and duties of the parties thereunder are governed by and construed in accordance with the laws of England. The Senior Secured Security Documents are governed by the law of the location of the relevant asset that is part of the Collateral.

### **Certain Definitions**

“*2017 Senior Notes*” means the 5% Senior Notes due 2025 issued by the Company on the Original Issue Date pursuant to the 2017 Senior Notes Indenture.

“*2017 Senior Notes Indenture*” means the indenture dated as of the Original Issue Date, between, *inter alios*, the Company, the guarantors of the Senior Notes, the trustee in respect of the Senior Notes and the security agent in respect of the 2017 Senior Notes.

“*2018 Senior Notes*” means the 7¼% Senior Notes due 2025 issued by the Company on December 4, 2018 and December 13, 2018 pursuant to the 2018 Senior Notes Indenture.



“2018 Senior Notes Indenture” means the indenture dated as of December 4, 2018, between, *inter alios*, the Company, the guarantors of the Senior Notes, the trustee in respect of the Senior Notes and the security agent in respect of the 2018 Senior Notes.

“Acquired Indebtedness” means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary; (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Restricted Subsidiary or such acquisition; or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with the Issuer or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

“Acquisition” means any acquisition by the Issuer or German Holdco of Target Shares: (a) pursuant to the voluntary public tender offer (*Freiwilliges Übernahmeangebot*) by the Issuer for the Target Shares in accordance with the German Takeover Code and the public announcement, dated July 10, 2017, to all shareholders of the Target for the acquisition by the Issuer of the Target Shares pursuant to Section 10 of the German Takeover Code; (b) pursuant to any Acquisition Agreement; (c) pursuant to the Domination Agreement; (d) pursuant to a Squeeze-Out; (e) which are tendered in accordance with section 39c of the German Takeover Code; and/or (f) in the open market.

“Acquisition Agreement” means any agreement relating to the sale and purchase by the Issuer of certain Target Shares and made between (i) one or more vendors and (ii) the Issuer, an Initial Investor or any of their respective Affiliates or Related Funds.

“Additional Assets” means:

- (1) any property or assets (other than Capital Stock) used or to be used by the Issuer, a Restricted Subsidiary or otherwise useful in a Similar Business (it being understood that capital expenditures on property or assets already used in a Similar Business or to replace any property or assets that are the subject of such Asset Disposition shall be deemed an investment in Additional Assets (in each case, on or after the Original Issue Date));
- (2) the Capital Stock of a Person that is engaged in a Similar Business and becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Issuer or a Restricted Subsidiary; or
- (3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary.

“Affiliate” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Agreed Security Principles” means the agreed security principles appended to the Senior Facilities Agreement, as of the Original Issue Date, as applied *mutatis mutandis* with respect to the Senior Secured Notes in good faith by the Issuer.

“Applicable Premium” means the greater of:

- (a) 1% of the principal amount of such Senior Secured Note; and
- (b) the excess (to the extent positive) of:
  - (i) the present value at such redemption date of (A) the redemption price of such Senior Secured Note at September 30, 2020 (such redemption price (expressed in percentage of principal amount) being set forth in the table under “Optional Redemption” (excluding accrued and unpaid interest)), plus (B) all required interest payments due on such Senior Secured Note to and including September 30, 2020 (excluding accrued but unpaid interest), computed upon the redemption date using a discount rate equal to the Bund Rate at such redemption date (or, if greater than such Bund Rate, zero) plus 50 basis points; over

(ii) the outstanding principal amount of such Senior Secured Note,

as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, calculation of the Applicable Premium shall not be an obligation or responsibility of the Trustee or Paying Agent.

“*Asset Disposition*” means:

- (a) the voluntary sale, conveyance, transfer or other disposition, whether in a single transaction or a series of related transactions, of property or assets (including by way of a Sale and Leaseback Transaction) of the Issuer or any of the Restricted Subsidiaries (in each case other than Capital Stock of the Issuer) (each referred to in this definition as a “*disposition*”); or
- (b) the issuance, sale, transfer or other disposition of Capital Stock of any Restricted Subsidiary (other than Preferred Stock or Disqualified Stock of Restricted Subsidiaries issued in compliance with the covenant described under “*Certain Covenants—Limitation on Indebtedness*” or directors’ qualifying shares and shares issued to foreign nationals as required under applicable law), whether in a single transaction or a series of related transactions,

in each case, other than:

- (1) a disposition by the Issuer or a Restricted Subsidiary to the Issuer or a Restricted Subsidiary;
- (2) a disposition of cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;
- (3) a disposition of inventory or other assets (including Settlement Assets) in the ordinary course of business or consistent with past practice or held for sale or no longer used in the ordinary course of business, including any disposition of disposed, abandoned or discontinued operations;
- (4) a disposition of obsolete, worn-out, uneconomic, damaged or surplus property, equipment or other assets or property, equipment or other assets that are no longer economically practical or commercially desirable to maintain or used or useful in the business of the Issuer and the Restricted Subsidiaries whether now or hereafter owned or leased or acquired in connection with an acquisition or used or useful in the conduct of the business of the Issuer and the Restricted Subsidiaries (including by ceasing to enforce, allowing the lapse, abandonment or invalidation of or discontinuing the use or maintenance of or putting into the public domain any intellectual property that is, in the reasonable judgment of the Issuer or the Restricted Subsidiaries, no longer used or useful, or economically practicable to maintain, or in respect of which the Issuer or any Restricted Subsidiary determines in its reasonable judgment that such action or inaction is desirable);
- (5) transactions permitted under “*Merger and Consolidation*” or a transaction that constitutes a Change of Control;
- (6) an issuance of Capital Stock by a Restricted Subsidiary to the Issuer or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors of the Issuer;
- (7) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as determined in good faith by the Issuer) of less than the greater of (a) €50.0 million and (b) 10.0% of LTM EBITDA;
- (8) any Restricted Payment that is permitted to be made, and is made, under the covenant described under “*Certain Covenants—Limitation on Restricted Payments*” and the making of any Permitted Payment or Permitted Investment or, solely for purposes of the third paragraph under “*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*,” asset sales, the proceeds of which are used within 180 days of receipt of such proceeds to make such Restricted Payments, Permitted Payments or Permitted Investments;
- (9) dispositions in connection with Permitted Liens;
- (10) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or consistent with past practice or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;
- (11) conveyances, sales, transfers, licenses or sublicenses or other dispositions of intellectual property, software or other general intangibles and licenses, sub-licenses, leases or subleases of other property, in each case, in the ordinary course of business or consistent with past practice or pursuant to a

research or development agreement in which the counterparty to such agreement receives a license in the intellectual property or software that result from such agreement;

- (12) the lease, assignment, license, sublease or sublicense of any real or personal property in the ordinary course of business;
- (13) foreclosure, condemnation, taking by eminent domain or any similar action with respect to any property or other assets;
- (14) the sale or discount (with or without recourse, and on customary or commercially reasonable terms and for credit management purposes) of accounts receivable or notes receivable arising in the ordinary course of business or consistent with past practice, or the conversion or exchange of accounts receivable for notes receivable;
- (15) any issuance or sale of Capital Stock in, or Indebtedness or other securities of, an Unrestricted Subsidiary or any other disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary or an Immaterial Subsidiary;
- (16) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than the Issuer or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;
- (17) dispositions of property to the extent (i) that such property is exchanged for credit against the purchase price of similar replacement property that is promptly purchased; (ii) that the proceeds of such disposition are promptly applied to the purchase price of such replacement property (which replacement property is actually promptly purchased); or (iii) allowable under Section 1031 of the U.S. Internal Revenue Code (or any similar provision under applicable tax law) and constituting any exchange of like property (excluding any boot thereon) for use in a Similar Business;
- (18) any disposition of Securitization Assets or Receivables Assets, or participations therein, in connection with any Qualified Securitization Financing or Receivables Facility, or the disposition of an account receivable in connection with the collection or compromise thereof in the ordinary course of business or consistent with past practice;
- (19) any disposition pursuant to a financing transaction with respect to property constructed, acquired, replaced, repaired or improved (including any reconstruction, refurbishment, renovation and/or development of real property) by the Issuer or any Restricted Subsidiary after the Original Issue Date, including Sale and Leaseback Transactions and asset securitizations, permitted by the Senior Secured Notes Indenture;
- (20) dispositions of Investments in joint ventures or similar entities to the extent required by, or made pursuant to customary buy/sell arrangements between, the parties to such joint venture set forth in joint venture arrangements and similar binding arrangements;
- (21) any surrender or waiver of contractual rights or the settlement, release, surrender or waiver of contractual, tort, litigation or other claims of any kind; and
- (22) the unwinding of any Cash Management Services or Hedging Obligations.

In the event that a transaction (or any portion thereof) meets the criteria of a permitted Asset Disposition and would also be a Permitted Investment or an Investment permitted under “*Certain Covenants—Limitation on Restricted Payments*,” the Issuer, in its sole discretion, will be entitled to divide and classify such transaction (or a portion thereof) as an Asset Disposition and/or one or more of the types of Permitted Investments or Investments permitted under “*Certain Covenants—Limitation on Restricted Payments*.”

“*Associate*” means (i) any Person engaged in a Similar Business of which the Issuer or the Restricted Subsidiaries are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (ii) any joint venture entered into by the Issuer or any Restricted Subsidiary.

“*Board of Directors*” means (i) with respect to any corporation, the board of directors or managers, as applicable, of the corporation, or any duly authorized committee thereof, (ii) with respect to any partnership, the board of directors or other governing body of the general partner, as applicable, of the

partnership or any duly authorized committee thereof, (iii) with respect to a limited liability company, the managing member or members or any duly authorized controlling committee thereof and (iv) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function. Whenever any provision of the Senior Secured Notes Indenture requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval). Unless the context requires otherwise, Board of Directors means the Board of Directors of the Issuer.

“*Bund Rate*” as selected by the Issuer, means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (*Bunds* or *Bundesanleihen*) with a constant maturity as officially compiled and published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected in good faith by the Issuer) most nearly equal to the period from the redemption date to September 30, 2020; *provided, however*, that if the period from the redemption date to September 30, 2020 is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to September 30, 2020 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used.

“*Business Day*” means each day that is not a Saturday, Sunday or other day on which banking institutions in (i) Frankfurt, Germany, (ii) London, United Kingdom or (iii) New York, New York, United States; are authorized or required by law to close.

“*Business Successor*” means (i) any former Subsidiary of the Issuer and (ii) any Person that, after the Original Issue Date, has acquired, merged or consolidated with a Subsidiary of the Issuer (that results in such Subsidiary ceasing to be a Subsidiary of the Issuer), or acquired (in one transaction or a series of transactions) all or substantially all of the property and assets or business of a Subsidiary or assets constituting a business unit, line of business or division of a Subsidiary of the Issuer.

“*Capital Stock*” of any Person means any and all shares of, rights to purchase or acquire, warrants, options or depositary receipts for, or other equivalents of, or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into, or exchangeable for, such equity.

“*Capitalized Lease Obligations*” means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes on the basis of IFRS. The amount of Indebtedness represented by such obligation will be the capitalized amount of such obligation at the time any determination thereof is to be made as determined on the basis of IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

“*Cash Equivalents*” means:

- (1) (a) Euros, Canadian dollars, Swiss Francs, United Kingdom pounds, Japanese Yen, Dollars or any national currency of any member state of the European Union; or (b) any other foreign currency held by the Issuer and the Restricted Subsidiaries in the ordinary course of business;
- (2) securities or other direct obligations, issued or directly and fully Guaranteed or insured by the United States of America, Canadian, Japanese, Australian, Swiss, Norwegian or United Kingdom governments, the European Union or any member state of the European Union on the Original Issue Date or, in each case, any agency or instrumentality thereof (*provided* that the full faith and credit of such country or such member state is pledged in support thereof), with maturities of 24 months or less from the date of acquisition;
- (3) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers’ acceptances having maturities of not more than one year from the date of acquisition thereof issued by any lender or by any bank or trust company (a) whose commercial paper is rated at least “A-1” or the equivalent thereof by S&P or at least “P-1” or the equivalent thereof by Moody’s (or if at the time

neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (b) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of €250.0 million;

- (4) repurchase obligations for underlying securities of the types described in clauses (2), (3) and (7) entered into with any bank meeting the qualifications specified in clause (3) above;
- (5) securities with maturities of one year or less from the date of acquisition backed by standby letters of credit issued by any Person referenced in clause (3) above;
- (6) commercial paper and variable or fixed rate notes issued by a bank meeting the qualifications specified in clause (3) above (or by the Parent Entity thereof) maturing within one year after the date of creation thereof or any commercial paper and variable or fixed rate note issued by, or guaranteed by a corporation rated at least “A-1” or higher by S&P or “P-1” or higher by Moody’s (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization selected by the Issuer) maturing within one year after the date of creation thereof;
- (7) interests in any investment company, money market, enhanced high yield fund or other investment fund which invests 90% or more of its assets in instruments of the types specified in clauses (1) through (6) above; and
- (8) for purposes of clause (2) of the definition of “Asset Disposition,” the marketable securities portfolio owned by the Issuer and its Subsidiaries on the Original Issue Date.

“*Cash Management Services*” means any of the following to the extent not constituting a line of credit (other than an overnight draft facility that is not in default): automated clearing house transactions, treasury, depository, credit or debit card, purchasing card, stored value card, electronic fund transfer services and/or cash management services, including controlled disbursement services, overdraft facilities, foreign exchange facilities, deposit and other accounts and merchant services or other cash management arrangements in the ordinary course of business or consistent with past practice.

“*Change of Control*” means:

- (1) the Issuer becomes aware of (by way of a report or any other filing pursuant to Section 13(d) of the Exchange Act, proxy, vote, written notice or otherwise) any “person” or “group” of related persons (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Original Issue Date), other than one or more Permitted Holders, being or becoming the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act as in effect on the Original Issue Date) of more than 50% of the total voting power of the Voting Stock of the Issuer other than in connection with any transaction or series of transactions in which the Issuer shall become the wholly owned subsidiary of a Parent Entity so long as no Person or group, as noted above, other than a Permitted Holder, holds more than 50% of the total voting power of the Voting Stock of such Parent Entity;
- (2) the Company ceasing to directly own 100% of the total issued share capital (excluding director’s qualifying shares) of the Issuer (or any successor entity as a result of a merger of the Issuer and the Target and/or German Holdco); or
- (3) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, amalgamation, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of the Issuer and the Restricted Subsidiaries taken as a whole to a Person, other than the Issuer or any of the Restricted Subsidiaries or one or more Permitted Holders.

Notwithstanding the foregoing, (a) a transaction will not be deemed to involve a Change of Control solely as a result of the Issuer becoming a direct or indirect wholly owned subsidiary of a holding company if (A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Issuer’s Voting Stock immediately prior to that transaction or (B) immediately following that transaction no Person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company, (b) the right to acquire Voting Stock (so long as such Person does not have the right to direct the voting of the Voting Stock subject to such right) or any veto power in connection with the acquisition or disposition of Voting Stock will not cause a party to be a beneficial owner and (c) a Permitted Holdco Transaction shall not constitute a Change of Control.



“*Change of Control Triggering Event*” means the occurrence of a Change of Control, unless *pro forma* for the Change of Control, the Consolidated Total Net Leverage Ratio is less than 5.70 to 1.00; *provided, however*, that following the first Change of Control Triggering Event in respect of which no Change of Control Offer has been made or waived, the definition of Change of Control Triggering Event shall thereafter mean a Change of Control.

“*Clearstream*” means Clearstream Banking, S.A., or any successor thereof.

“*Company*” means Nidda BondCo GmbH.

“*Completion Date*” means August 22, 2017.

“*Consolidated Depreciation and Amortization Expense*” means, with respect to any Person for any period, the total amount of depreciation and amortization expense, including amortization or write-off of (i) intangibles and non-cash organization costs, (ii) deferred financing fees or costs and (iii) capitalized expenditures, customer acquisition costs and incentive payments, conversion costs and contract acquisition costs, the amortization of original issue discount resulting from the issuance of Indebtedness at less than par and amortization of favorable or unfavorable lease assets or liabilities, of such Person and its Subsidiaries that are Restricted Subsidiaries for such period on a consolidated basis and otherwise determined in accordance with IFRS and any write down of assets or asset value carried on the balance sheet.

“*Consolidated EBITDA*” means, with respect to any Person for any period, the Consolidated Net Income of such Person for such period:

(1) increased (without duplication) by:

- (a) provision for taxes based on income or profits, revenue or capital, including federal, state, provincial, territorial, local, foreign, unitary, excise, property, franchise and similar taxes and foreign withholding and similar taxes of such Person paid or accrued during such period, including any penalties and interest relating to any tax examinations (including any additions to such taxes, and any penalties and interest with respect thereto), deducted (and not added back) in computing Consolidated Net Income; *plus*
- (b) Fixed Charges of such Person for such period (including (x) net losses on any Hedging Obligations or other derivative instruments entered into for the purpose of hedging interest rate, currency or commodities risk, (y) bank fees and (z) costs of surety bonds in connection with financing activities, plus amounts excluded from the definition of “Consolidated Interest Expense” pursuant to clauses (s) through (z) in clause (1) thereof), in each case, to the extent the same were deducted (and not added back) in calculating such Consolidated Net Income; *plus*
- (c) Consolidated Depreciation and Amortization Expense of such Person for such period to the extent the same were deducted (and not added back) in computing Consolidated Net Income; *plus*
- (d) any (x) Transaction Expenses and (y) any fees, costs, expenses or charges (other than Consolidated Depreciation and Amortization Expense) related to any actual, proposed or contemplated Equity Offering (including any expense relating to enhanced accounting functions or other transactions costs associated with becoming a public company), Permitted Investment, acquisition, disposition, recapitalization or the Incurrence of Indebtedness permitted to be Incurred by the Senior Secured Notes Indenture (including a refinancing thereof) (whether or not successful), in each case, including (i) such fees, expenses or charges (including rating agency fees and related expenses) related to the offering of the Senior Secured Notes, the Senior Secured Bridge Facility, the Senior Unsecured Bridge Facility, the offering of the Senior Notes, the Senior Facilities, any other Credit Facility and any Securitization Fees, and (ii) any amendment, waiver or other modification of the Senior Secured Notes, the Senior Notes, the Senior Facilities, Receivables Facilities, Securitization Facilities, any other Credit Facility, any other Indebtedness permitted to be Incurred under the Senior Secured Notes Indenture or any Equity Offering, in each case, whether or not consummated, to the extent the same were deducted (and not added back) in computing Consolidated Net Income; *plus*
- (e) (i) the amount of any restructuring charge, accrual or reserve (and adjustments to existing reserves), integration cost or other business optimization expense or cost (including charges directly related to the implementation of cost-savings initiatives) that is deducted (and not added

back) in such period in computing Consolidated Net Income, including any one-time costs Incurred in connection with acquisitions or divestitures after the Original Issue Date, including those related to any severance, retention, signing bonuses, relocation, recruiting and other employee related costs, internal costs in respect of strategic initiatives and curtailments or modifications to pension and post-retirement employment benefit plans (including any settlement of pension liabilities), systems development and establishment costs, future lease commitments and costs related to the opening and closure and/or consolidation of facilities and to exiting lines of business and consulting fees Incurred with any of the foregoing and (ii) fees, costs and expenses associated with acquisition related litigation and settlements thereof; *plus*

- (f) any other non-cash charges, write-downs, expenses, losses or items reducing Consolidated Net Income for such period including any impairment charges or the impact of purchase accounting; *provided* that if any such non-cash charge, write-down or item to the extent it represents an accrual or reserve for a cash expenditure for a future period then the cash payment in such future period shall be subtracted from Consolidated EBITDA when paid or other items classified by the Issuer as special items less other non-cash items of income increasing Consolidated Net Income (excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period); *plus*
- (g) the amount of board of director fees, management, monitoring, advisory, consulting, refinancing, subsequent transaction, advisory and exit fees (including termination fees) and related indemnities and expenses paid or accrued in such period to any member of the Board of Directors of the Issuer, any Permitted Holder or any Affiliate of a Permitted Holder to the extent permitted under “*Certain Covenants—Limitation on Affiliate Transactions*”; *plus*
- (h) the “run rate” cost savings, operating expense reductions, restructuring charges and expenses and synergies that are expected (in good faith) to be realized as a result of actions taken or expected to be taken within 24 months after the date of any acquisition, disposition, divestiture, restructuring or the implementation of a cost savings or other similar initiative, as applicable (calculated on a *pro forma* basis as though such cost savings, operating expense reductions, restructuring charges and expenses and synergies had been realized from the first day of such period and during the entirety of such period), net of the amount of actual benefits realized during such period from such actions; *provided* that (i) such actions are expected to be taken within 24 months after the consummation of the acquisition, disposition, restructuring or the implementation of an initiative, as applicable, which is expected to result in cost savings, operating expense reductions, restructuring charges and expenses or synergies, and (ii) no cost savings, operating expense reductions, restructuring charges and expenses or synergies shall be added pursuant to this defined term to the extent duplicative of any expenses or charges otherwise added to Consolidated EBITDA, whether through a *pro forma* adjustment or otherwise, for such period (which adjustments, without double counting, may be incremental to *pro forma* adjustments made pursuant to the definition of “Fixed Charge Coverage Ratio” (excluding, for the avoidance of doubt, the further proviso to the first paragraph of such definition)); *plus*
- (i) the “run rate” expected cost savings, operating expense reductions including, without limitation, costs and expenses related to information and technology systems establishment, modernization or modification, restructuring charges and expenses and synergies related to the Transactions projected by the Issuer in good faith to result from actions with respect to which substantial steps have been, will be, or are expected to be, taken (in the good faith determination of the Issuer), calculated on a *pro forma* basis as though such cost savings, operating expense reductions, restructuring charges and expenses and synergies had been realized from the first day of such period and during the entirety of such period, net of the amount of actual benefits realized during such period from such actions, and which adjustments, without double counting, may be incremental to *pro forma* adjustments made pursuant to the definition of “Fixed Charge Coverage Ratio” (excluding, for the avoidance of doubt, the further proviso to the first paragraph of such definition)); *plus*
- (j) the amount of loss or discount on sale of Securitization Assets, Receivables Assets and related assets to the Securitization Subsidiary in connection with a Qualified Securitization Financing or Receivables Facility; *plus*

- (k) any costs or expense Incurred by the Issuer or a Restricted Subsidiary pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement, any severance agreement or any stock subscription or shareholder agreement, to the extent that such cost or expenses are funded with cash proceeds contributed to the capital of the Issuer or Net Cash Proceeds of an issuance of Capital Stock (other than Disqualified Stock) of the Issuer solely to the extent that such Net Cash Proceeds are excluded from the calculation set forth in clause (c) of the first paragraph under “*Certain Covenants—Limitation on Restricted Payments*”; *plus*
  - (l) cash receipts (or any netting arrangements resulting in reduced cash expenditures) not representing Consolidated EBITDA or Consolidated Net Income in any period to the extent non-cash gains relating to such income were deducted in the calculation of Consolidated EBITDA pursuant to clause (2) below for any previous period and not added back; *plus*
  - (m) any net loss included in the Consolidated Net Income attributable to non-controlling interests; *plus*
  - (n) realized foreign exchange losses resulting from the impact of foreign currency changes on the valuation of assets or liabilities on the balance sheet of the Issuer and the Restricted Subsidiaries; *plus*
  - (o) net realized losses from Hedging Obligations or embedded derivatives; *plus*
  - (p) the amount of any minority interest expense consisting of Subsidiary income attributable to minority equity interests of third parties in any non-wholly owned Subsidiary, including payments to Minority Shareholders under the Domination Agreement, and any costs and expenses (including all legal, accounting and other professional fees and expenses) related thereto; *plus*
  - (q) with respect to any joint venture, an amount equal to the proportion of those items described in clauses (a) and (c) above relating to such joint venture corresponding to the Issuer’s and the Restricted Subsidiaries’ proportionate share of such joint venture’s Consolidated Net Income (determined as if such joint venture were a Restricted Subsidiary) to the extent the same was deducted (and not added back) in calculating Consolidated Net Income; *plus*
  - (r) earn-out and contingent consideration obligations (including to the extent accounted for as bonuses or otherwise) and adjustments thereof and purchase price adjustments; *plus*
  - (s) any net pension or other post-employment benefit costs representing amortization of unrecognized prior service costs, actuarial losses, including amortization of such amounts arising in prior periods, amortization of the unrecognized net obligation (and loss or cost), and any other items of a similar nature; *plus*
  - (t) the amount of expenses relating to payments made to option holders of the Issuer or any Parent Entity in connection with, or as a result of, any distribution being made to equityholders of such Person or its Parent Entities, which payments are being made to compensate such option holders as though they were equityholders at the time of, and entitled to share in, such distribution, in each case to the extent permitted under the Senior Secured Notes Indenture; *plus*
  - (u) to the extent not already otherwise included herein, adjustments and add-backs made in calculating “Pro Forma Adjusted EBITDA” for the pro forma twelve months ended June 30, 2017, included in the Offering Memorandum; *plus*
  - (v) earn out obligations Incurred in connection with any permitted acquisition or other Investment permitted under the Senior Secured Notes Indenture and paid or accrued during such period; *plus*
  - (w) losses, charges and expenses related to the pre-opening and opening of new facilities, and start-up period prior to opening, that are operated, or to be operated, by the Issuer or any Restricted Subsidiary; and
- (2) decreased (without duplication) by non-cash gains increasing Consolidated Net Income of such Person for such period, excluding any non-cash gains to the extent they represent the reversal of an accrual or reserve for a potential cash item that reduced Consolidated EBITDA in any prior period.

“*Consolidated Interest Expense*” means, with respect to any Person for any period, without duplication, the sum of:

- (1) consolidated interest expense of such Person and its Subsidiaries that are Restricted Subsidiaries for such period (in each case, determined on the basis of IFRS), to the extent such expense was deducted (and not added back) in computing Consolidated Net Income (including (a) amortization of original issue discount or premium resulting from the issuance of Indebtedness at less than par, (b) all commissions, discounts and other fees and charges owed with respect to letters of credit or bankers acceptances, (c) non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of any Hedging Obligations or other derivative instruments pursuant to IFRS), (d) the interest component of Capitalized Lease Obligations, and (e) net payments, if any, pursuant to interest rate Hedging Obligations with respect to Indebtedness, and excluding (s) Securitization Fees, (t) penalties and interest relating to taxes (but excluding, for the avoidance of doubt, any Additional Amounts paid with respect to the Senior Secured Notes, the Senior Secured Notes Guarantees or the Senior Notes Guarantees), (u) any additional cash interest owing pursuant to any registration rights agreement, (v) accretion or accrual of discounted liabilities other than Indebtedness, (w) any expense resulting from the discounting of any Indebtedness in connection with the application of recapitalization accounting or purchase accounting in connection with the Transactions or any acquisition, (x) amortization or write-off of deferred financing fees, debt issuance costs, debt discount or premium, terminated Hedging Obligations and other commissions, financing fees and expenses and original issue discount with respect to Indebtedness borrowed under the Senior Facilities and, adjusted to the extent included, to exclude any refunds or similar credits received in connection with the purchasing or procurement of goods or services under any purchasing card or similar program, (y) any expensing of bridge, commitment and other financing fees and (z) interest with respect to Indebtedness of any parent of such Person appearing upon the balance sheet of such Person solely by reason of push-down accounting under IFRS); *plus*
- (2) consolidated capitalized interest of such Person and its Subsidiaries that are Restricted Subsidiaries for such period, whether paid or accrued (but excluding any interest capitalized, accrued, accreted or paid in respect of Subordinated Shareholder Funding); *less*
- (3) interest income for such period.

For purposes of this definition, interest on a Capitalized Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by such Person to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with IFRS.

“*Consolidated Net Income*” means, with respect to any Person for any period, the net income (loss) of such Person and its Subsidiaries that are Restricted Subsidiaries for such period determined on a consolidated basis on the basis of IFRS after any reduction in respect of Preferred Stock dividends; *provided, however*, that there will not be included in such Consolidated Net Income:

- (1) any net income (loss) of any Person if such Person is not a Restricted Subsidiary (including any net income (loss) from Investments recorded in such Person under the equity method of accounting), except that the Issuer’s equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that (as reasonably determined by an Officer of the Issuer) could have been distributed by such Person during such period to the Issuer or a Restricted Subsidiary as a dividend or other distribution or return on investment (subject, in the case of a dividend or other distribution or return on investment to a Restricted Subsidiary, to the limitations contained in clause (2) below); *provided* that, for the purposes of clause (c) of the first paragraph of the covenant described under “*Certain Covenants—Limitation on Restricted Payments*,” such dividend, other distribution or return on investment does not reduce the amount of Investments outstanding under the definition of “Permitted Investments”;
- (2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph of the covenant described under “*Certain Covenants—Limitation on Restricted Payments*,” any net income (loss) of any Restricted Subsidiary (other than the Issuer and the Guarantors) if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer or a Guarantor by operation of the terms of such Restricted Subsidiary’s articles, charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable

to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Senior Facilities, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Senior Secured Notes, the Senior Secured Notes Indenture, the Senior Notes or the Senior Notes Indenture and (c) restrictions specified in clause (13)(a) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries*”) except that the Issuer’s equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

- (3) any gain (or loss), together with any related provisions for taxes on any such gain (or the tax effect of any such loss), realized upon the sale or other disposition of any asset (including pursuant to any Sale and Leaseback Transaction) or disposed or discontinued operations of the Issuer or any Restricted Subsidiaries which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Issuer);
- (4) any extraordinary, exceptional, unusual or nonrecurring gain, loss, charge or expense, including Transaction Expenses or any charges, expenses or reserves in respect of any restructuring, redundancy or severance expense or relocation costs, one-time compensation charges, integration and facilities’ opening costs and other business optimization expenses and operating improvements (including related to new product introductions), systems development and establishment costs, accruals or reserves (including restructuring and integration costs related to acquisitions after the Original Issue Date and adjustments to existing reserves), whether or not classified as restructuring expense on the consolidated financial statements, signing costs, retention or completion bonuses, transition costs, costs related to closure/consolidation of facilities, internal costs in respect of strategic initiatives and curtailments or modifications to pension and post-retirement employee benefit plans (including any settlement of pension liabilities), contract terminations and professional and consulting fees Incurred with any of the foregoing;
- (5) the cumulative effect of a change in law, regulation or accounting principles, including any impact resulting from an election by the Issuer to apply GAAP at any time following the Original Issue Date;
- (6) any (i) non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions or on the re-valuation of any benefit plan obligation and (ii) income (loss) attributable to deferred compensation plans or trusts;
- (7) all deferred financing costs written off and premiums paid or other expenses Incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness;
- (8) any unrealized gains or losses in respect of any Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value of changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of any Hedging Obligations;
- (9) any fees and expenses (including any transaction or retention bonus or similar payment) Incurred during such period, or any amortization thereof for such period, in connection with any acquisition, Investment, disposition of assets or securities, issuance or repayment of Indebtedness, issuance of Capital Stock, refinancing transaction or amendment or modification of any debt instrument (in each case, including any such transaction consummated prior to the Original Issue Date and any such transaction undertaken but not completed) and any charges or non-recurring merger costs Incurred during such period as a result of any such transaction, in each case whether or not successful;
- (10) any unrealized foreign currency transaction gains or losses in respect of Indebtedness of any Person denominated in a currency other than the functional currency of such Person, and any unrealized foreign currency transaction gains or losses in respect of Indebtedness or other obligations of the Issuer or any Restricted Subsidiary owing to the Issuer or any Restricted Subsidiary and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;



- (11) any unrealized or realized gain or loss due solely to fluctuations in currency values and the related tax effects, determined in accordance with IFRS;
- (12) any recapitalization accounting or purchase accounting effects, including, but not limited to, adjustments to inventory, property and equipment, software and other intangible assets and deferred revenue in component amounts required or permitted by IFRS and related authoritative pronouncements (including the effects of such adjustments pushed down to the Issuer and the Restricted Subsidiaries), as a result of any consummated acquisition (including the Transaction), or the amortization or write-off of any amounts thereof (including any write-off of in process research and development);
- (13) any impairment charge, write-off or write-down, including impairment charges, write-offs or write-downs related to intangible assets, long-lived assets, goodwill, investments in debt or equity securities (including any losses with respect to the foregoing in bankruptcy, insolvency or similar proceedings) and the amortization of intangibles arising pursuant to IFRS;
- (14) any effect of income (loss) from the early extinguishment or cancellation of Indebtedness or any Hedging Obligations or other derivative instruments;
- (15) accruals and reserves that are established or adjusted (including any adjustment of estimated payouts on existing earn-outs) that are so required to be established as a result of the Transactions in accordance with IFRS, or changes as a result of adoption or modification of accounting policies;
- (16) any costs associated with the Transactions;
- (17) any non-cash expenses, accruals or reserves related to adjustments to historical tax exposures and any deferred tax expense associated with tax deductions or net operating losses arising as a result of the Transactions, or the release of any valuation allowances related to such item;
- (18) any (i) payments to third parties in respect of research and development, including amounts paid upon signing, success, completion and other milestones and other progress payments, to the extent expensed and (ii) effects of adjustments to accruals and reserves during a period relating to any change in the methodology of calculating reserves for returns, rebates and other chargebacks (including government program rebates);
- (19) any net gain (or loss) from disposed, abandoned or discontinued operations and any net gain (or loss) on disposal of disposed, discontinued or abandoned operations; and
- (20) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Funding.

In addition, to the extent not already included in the Consolidated Net Income of such Person and its Subsidiaries that are Restricted Subsidiaries, notwithstanding anything to the contrary in the foregoing, Consolidated Net Income shall include (i) any expenses and charges that are reimbursed by indemnification or other reimbursement provisions in connection with any investment or any sale, conveyance, transfer or other disposition of assets permitted hereunder, or, so long as the Issuer has made a determination that there exists reasonable evidence that such amount will in fact be reimbursed and only to the extent that such amount is (A) not denied by the applicable payor in writing within 180 days and (B) in fact reimbursed within 365 days of the date of such evidence (with a deduction for any amount so added back to the extent not so reimbursed within 365 days) and (ii) to the extent covered by insurance (including business interruption insurance) and actually reimbursed, or, so long as the Issuer has made a determination that there exists reasonable evidence that such amount will in fact be reimbursed by the insurer and only to the extent that such amount is (A) not denied by the applicable carrier in writing within 180 days and (B) in fact reimbursed within 365 days of the date of such evidence (with a deduction for any amount so added back to the extent not so reimbursed within 365 days), expenses with respect to liability or casualty events or business interruption.

*“Consolidated Senior Secured Net Leverage Ratio”* means, as of any date of determination, the ratio of (x) the sum of (a) Senior Secured Indebtedness and (b) the Reserved Indebtedness Amount that would upon Incurrence constitute Senior Secured Indebtedness as of such date, *less* the aggregate amount of cash and Cash Equivalents of the Issuer and the Restricted Subsidiaries on a consolidated basis; to (y) LTM EBITDA; *provided, however*, that the pro forma calculation shall not give effect to (i) any Indebtedness Incurred on such determination date pursuant to the provisions described in the second paragraph under *“Certain Covenants—Limitation on Indebtedness”* (other than Indebtedness Incurred pursuant to

clauses (1)(c) and 5(b) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”), (ii) any Indebtedness Incurred pursuant to clause (4)(a) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*” or (iii) the discharge on such determination date of any Indebtedness to the extent that such discharge results from the proceeds Incurred pursuant to the provisions described in the second paragraph under “*Certain Covenants—Limitation on Indebtedness*” (other than the discharge of Indebtedness using proceeds of Indebtedness Incurred pursuant to clauses (1)(c) and (5)(b) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”); *provided further, however*, that at any time prior to the Control Entry Date, in calculating the Consolidated Senior Secured Net Leverage Ratio, the portion of Senior Secured Indebtedness Incurred to finance the purchase of Target Shares in an Acquisition (and excluding, for the avoidance of doubt, Existing Target Debt Financing and Refinancing Indebtedness in respect of Existing Target Debt Financing) shall be multiplied by a quotient equal to (x) one, divided by (y) the percentage of the Target Shares held (directly or indirectly) by the Issuer as of the date of determination after giving pro forma effect to any increase in ownership of the Target Shares resulting from the transaction or transactions from which such determination results or which are contemplated in connection with any Reserved Indebtedness Amount.

“*Consolidated Total Indebtedness*” means, as of any date of determination, (a) the aggregate principal amount of Indebtedness for borrowed money (excluding Indebtedness with respect to Cash Management Services and intercompany Indebtedness of the Group (including the Target Group) as of such date), plus (b) Capitalized Lease Obligations, Purchase Money Obligations and unreimbursed drawings under letters of credit of the Issuer and the Restricted Subsidiaries outstanding on such date, minus (c) the aggregate amount of cash and Cash Equivalents included in the consolidated balance sheet of the Issuer and the Restricted Subsidiaries as of the end of the most recent fiscal period for which internal financial statements of the Issuer are available (*provided* that the cash proceeds of any proposed Incurrence of Indebtedness shall not be included in this clause (c) for purposes of calculating the Consolidated Total Net Leverage Ratio or the Consolidated Senior Secured Net Leverage Ratio, as applicable), with such pro forma adjustments as are consistent with the pro forma adjustments set forth in the definition of “Fixed Charge Coverage Ratio.” For the avoidance of doubt, Consolidated Total Indebtedness shall exclude Indebtedness in respect of any Hedging Obligations, Receivables Facility or Securitization Facility.

“*Consolidated Total Net Leverage Ratio*” means, as of any date of determination, the ratio of (x) the sum of (a) Consolidated Total Indebtedness as of such date and (b) the Reserved Indebtedness Amount as of such date, to (y) LTM EBITDA; *provided, however*, that the pro forma calculation shall not give effect to (i) any Indebtedness Incurred on such determination date pursuant to the provisions described in the second paragraph under “*Certain Covenants—Limitation on Indebtedness*” (other than Indebtedness Incurred pursuant to clauses (1)(c), (1)(d) or 5(b) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”), (ii) any Indebtedness Incurred pursuant to clause (4)(a) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*” or (iii) the discharge on such determination date of any Indebtedness to the extent that such discharge results from the proceeds Incurred pursuant to the provisions described in the second paragraph under “*Certain Covenants—Limitation on Indebtedness*” (other than the discharge of Indebtedness using proceeds of Indebtedness Incurred pursuant to clauses (1)(c), (1)(d) and (5)(b) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”); *provided further, however*, that at any time prior to the Control Entry Date in calculating the Consolidated Total Net Leverage Ratio, the portion of Consolidated Total Indebtedness Incurred to finance the purchase of Target Shares in an Acquisition (and excluding, for the avoidance of doubt, Existing Target Debt Financing and Refinancing Indebtedness in respect of Existing Target Debt Financing) shall be multiplied by a quotient equal to (x) one, divided by (y) the percentage of the Target Shares held (directly or indirectly) by the Issuer as of the date of determination, after giving pro forma effect to any increase in ownership of the Target Shares resulting from the transaction or transactions from which such determination results or which are contemplated in connection with any Reserved Indebtedness Amount.

“*Contingent Obligations*” means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness (“*primary obligations*”) of any other Person (the “*primary obligor*”), including any obligation of such Person, whether or not contingent:

- (1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

- (2) to advance or supply funds:
  - (a) for the purchase or payment of any such primary obligation; or
  - (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or
- (3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

“*Control Date*” means the earliest to occur of: (a) the Domination Agreement Registration Date; (b) the date upon which the Target is converted into a company with limited liability (*Gesellschaft mit beschränkter Haftung*); and (c) the date upon which the Target is merged into the Issuer and/or German Holdco pursuant to a merger related Squeeze-Out or the Target Shares of the Minority Shareholders are acquired pursuant to a Squeeze-Out and the Issuer is converted into a company with limited liability (*Gesellschaft mit beschränkter Haftung*). The Control Date occurred on March 20, 2018.

“*Control Entry Date*” means the earlier of the date on which (a) the Domination Agreement is executed by the parties thereto; and (b) the Issuer and/or German Holdco acquires, gains the right to acquire and/or obtains acceptances to the Offer in respect of not less than 90% of the Target Shares. The Control Entry Date occurred on December 19, 2017.

“*Controlled Investment Affiliate*” means, as to any Person, any other Person, which directly or indirectly is in control of, is controlled by, or is under common control with such Person and is organized by such Person (or any Person controlling such Person) primarily for making direct or indirect equity or debt investments in the Issuer and/or other companies.

“*Credit Facility*” means, with respect to the Issuer or any of its Subsidiaries, one or more debt facilities, indentures or other arrangements (including the Senior Facilities or commercial paper facilities and overdraft facilities) with banks, other financial institutions or investors providing for revolving credit loans, term loans, notes, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the original Senior Facilities or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term “*Credit Facility*” shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

“*Default*” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default; *provided* that any Default that results solely from the taking of an action that would have been permitted but for the continuation of a previous Default will be deemed to be cured if such previous Default is cured prior to becoming an Event of Default.

“*Designated Non-Cash Consideration*” means the fair market value (as determined in good faith by the Issuer or any Restricted Subsidiary) of non-cash consideration received by the Issuer or any of the Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer’s Certificate, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under “*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*.”

*“Designated Preferred Stock”* means Preferred Stock of the Issuer or a Parent Entity (other than Disqualified Stock) that is issued for cash (other than to the Issuer or a Subsidiary of the Issuer or an employee stock ownership plan or trust established by the Issuer or any such Subsidiary for the benefit of their employees to the extent funded by the Issuer or such Subsidiary) and that is designated as “Designated Preferred Stock” pursuant to an Officer’s Certificate of the Issuer at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(iii) of the first paragraph of the covenant described under *“Certain Covenants—Limitation on Restricted Payments.”*

*“Disinterested Director”* means, with respect to any Affiliate Transaction, a member of the Board of Directors having no material direct or indirect financial interest in or with respect to such Affiliate Transaction. A member of the Board of Directors shall be deemed not to have such a financial interest by reason of such member’s holding Capital Stock of the Issuer or any options, warrants or other rights in respect of such Capital Stock.

*“Disqualified Stock”* means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

- (1) matures or is mandatorily redeemable for cash or in exchange for Indebtedness pursuant to a sinking fund obligation or otherwise; or
- (2) is or may become (in accordance with its terms) upon the occurrence of certain events or otherwise redeemable or repurchasable for cash or in exchange for Indebtedness at the option of the holder of the Capital Stock in whole or in part,

in each case on or prior to the earlier of (a) the Stated Maturity of the Senior Secured Notes or (b) the date on which there are no Senior Secured Notes outstanding; *provided, however*, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the issuer thereof to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under *“Certain Covenants—Limitation on Restricted Payments”*; *provided further, however*, that if such Capital Stock is issued to any future, current or former employee, director, officer, contractor or consultant (or their respective Controlled Investment Affiliates (excluding the Permitted Holders (but not excluding any future, current or former employee, director, officer, contractor or consultant) or Immediate Family Members)), of the Issuer, any of its Subsidiaries, any Parent Entity or any other entity in which the Issuer or a Restricted Subsidiary has an Investment and is designated in good faith as an “affiliate” by the Board of Directors (or the compensation committee thereof) or any other plan for the benefit of current, former or future employees (or their respective Controlled Investment Affiliates or Immediate Family Members) of the Issuer or its Subsidiaries or by any such plan to such employees (or their respective Controlled Investment Affiliates or Immediate Family Members), such Capital Stock shall not constitute Disqualified Stock solely because it may be required to be repurchased by the Issuer or its Subsidiaries in order to satisfy applicable statutory, contractual or regulatory obligations.

*“Domination Agreement”* means the domination and profit and loss pooling agreement (including any domination and profit and loss pooling agreements that replace, supersede, amend or modify the same) which may be entered into between the Target and the Issuer and/or German Holdco.

*“Domination Agreement Registration Date”* means the date on which the Domination Agreement is originally registered in the commercial register of the Target.

*“Equity Offering”* means (x) a sale of Capital Stock of the Issuer (other than Disqualified Stock and other than offerings registered on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions), or (y) the sale of Capital Stock or other securities by any Person, the proceeds of which are contributed to the equity of the Issuer or any of the Restricted Subsidiaries by any Parent Entity in any form other than Indebtedness, any Shareholder Contribution or Excluded Contributions or Excluded Amounts.

*“Escrowed Proceeds”* means the proceeds from the offering or incurrence of any debt securities or other Indebtedness paid into: (a) in the case of the proceeds from any Senior Term Loan, a Senior Term Loan Escrow Account; and (b) in any other case, an escrow account with an independent escrow agent on the



date of the applicable offering or Incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow account upon satisfaction of certain conditions or the occurrence of certain events. The term “Escrowed Proceeds” shall include any interest earned on the amounts held in escrow.

“Euro” or “€” means the single currency of participating member states of the economic and monetary union as contemplated in the Treaty on European Union.

“Euroclear” means Euroclear Bank SA/NV or any successor thereof.

“European Government Obligations” means any security denominated in Euro that is (1) a direct obligation of any country that is a member of the European Monetary Union and whose long-term debt is rated “A-1” or higher by Moody’s or “A+” or higher by S&P or the equivalent rating category of another Nationally Recognized Statistical Rating Organization on the date of the Senior Secured Notes Indenture, for the payment of which the full faith and credit of such country is pledged or (2) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally Guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

“Excluded Contribution” means Net Cash Proceeds or property or assets (other than Excluded Amounts) received by the Issuer as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preferred Stock) of the Issuer after the Original Issue Date or from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer for the benefit of their employees to the extent funded by the Issuer or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock or Designated Preferred Stock) or Subordinated Shareholder Funding of the Issuer (other than a Shareholder Contribution), in each case, to the extent designated as an Excluded Contribution pursuant to an Officer’s Certificate of the Issuer.

“Existing Target Debt Financing” means an amount equal to the aggregate principal amount outstanding under any agreement documenting financial indebtedness of, or available for utilization by, the Target Group at any relevant date of determination prior to the Control Date.

“fair market value” wherever such term is used in this “Description of the Senior Secured Notes” or the Senior Secured Notes Indenture (except as otherwise specifically provided in this “Description of the Senior Secured Notes” or the Senior Secured Notes Indenture), may be conclusively established by means of an Officer’s Certificate or a resolution of the Board of Directors of the Issuer setting out such fair market value as determined by such Officer or such Board of Directors in good faith.

“Fitch” means Fitch Ratings, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

“Fixed Charge Coverage Ratio” means, with respect to any Person on any determination date, the ratio of LTM EBITDA to the Fixed Charges of such Person for the most recent four consecutive fiscal quarters ending immediately prior to such determination date for which internal consolidated financial statements are available (the “reference period”). In the event that the Issuer or any Restricted Subsidiary Incurs, assumes, Guarantees, redeems, defeases, retires, extinguishes or otherwise discharges any Indebtedness (other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) or has caused any Reserved Indebtedness Amount to be deemed to be Incurred during such period or issues or redeems Disqualified Stock or Preferred Stock subsequent to the commencement of the reference period but prior to or simultaneously with the event for which the calculation of the Fixed Charge Coverage Ratio is made (the “Fixed Charge Coverage Ratio Calculation Date”), then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such Incurrence, deemed Incurrence, assumption, Guarantee, redemption, defeasance, retirement, extinguishment or other discharge of Indebtedness, or such issuance or redemption of Disqualified Stock or Preferred Stock, as if the same had occurred at the beginning of the applicable four-quarter period; provided, however, that the pro forma calculation shall not give effect to: (i) any Fixed Charges attributable to Indebtedness Incurred on the Fixed Charge Coverage Ratio Calculation Date pursuant to the provisions described in the second paragraph under “Certain Covenants—Limitation on Indebtedness” (other than Fixed Charges attributable to Indebtedness Incurred pursuant to clauses (1)(c), (1)(d) and (5)(b) thereof);



(ii) Fixed Charges attributable to Indebtedness Incurred pursuant to clause (4)(a) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”; or (iii) Fixed Charges attributable to any Indebtedness discharged on such Fixed Charge Coverage Ratio Calculation Date to the extent that such discharge results from the proceeds Incurred pursuant to the provisions described under the second paragraph under “*Certain Covenants—Limitation on Indebtedness*” (other than Fixed Charges attributable to Indebtedness discharged on such Fixed Charge Coverage Ratio Calculation Date using proceeds of Indebtedness Incurred pursuant to clauses (1)(c), (1)(d) and (5)(b) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”); *provided further, however*, that at any time prior to the Control Entry Date, in calculating the Fixed Charge Coverage Ratio, the portion of Fixed Charges attributable to Indebtedness Incurred to finance the purchase of Target Shares in an Acquisition (and excluding, for the avoidance of doubt, Existing Target Debt Financing and Refinancing Indebtedness in respect of Existing Target Debt Financing) shall be multiplied by a quotient equal to (x) one, divided by (y) the percentage of the Target Shares held (directly or indirectly) by the Issuer as of the date of determination, after giving pro forma effect to any increase in ownership of the Target Shares resulting from the transaction or transactions from which such determination results or which are contemplated in connection with any Reserved Indebtedness Amount.

For purposes of making the computation referred to above, any Investments, acquisitions, dispositions, mergers, amalgamations, consolidations and disposed operations that have been made by the Issuer or any of the Restricted Subsidiaries, during the reference period or subsequent to the reference period and on or prior to or simultaneously with the Fixed Charge Coverage Ratio Calculation Date shall be calculated on a pro forma basis assuming that all such Investments, acquisitions, dispositions, mergers, amalgamations, consolidations and disposed or discontinued operations (and the change in any associated fixed charge obligations and the change in LTM EBITDA resulting therefrom) had occurred on the first day of the reference period. If since the beginning of such period any Person that subsequently became a Restricted Subsidiary or was merged or amalgamated with or into the Issuer or any of the Restricted Subsidiaries since the beginning of such period shall have made any Investment, acquisition, disposition, merger, amalgamation, consolidation or disposed or discontinued operation that would have required adjustment pursuant to this definition, then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect thereto for such period as if such Investment, acquisition, disposition, merger, amalgamation, consolidation or disposed operation had occurred at the beginning of the reference period.

For purposes of this definition, whenever pro forma effect is to be given to a transaction, the pro forma calculations shall be made in good faith by a responsible financial or chief accounting officer of the Issuer (and may include cost savings and synergies). If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the Fixed Charge Coverage Ratio Calculation Date had been the applicable rate for the entire reference period (taking into account any Hedging Obligations applicable to such Indebtedness). Interest on a Capitalized Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of the Issuer to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with IFRS. For purposes of making the computation referred to above, interest on any Indebtedness under a revolving credit facility computed with a pro forma basis shall be computed based upon the average daily balance of such Indebtedness during the reference period except as set forth in the first paragraph of this definition. Interest on Indebtedness that may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rate, shall be determined to have been based upon the rate actually chosen, or if none, then based upon such optional rate chosen as the Issuer may designate.

“*Fixed Charges*” means, with respect to any Person for any period, the sum of:

- (1) Consolidated Interest Expense of such Person for such period;
- (2) all cash dividends or other distributions paid (excluding items eliminated in consolidation) on any series of Preferred Stock of any Restricted Subsidiary of such Person during such period; and
- (3) all cash dividends or other distributions paid (excluding items eliminated in consolidation) on any series of Disqualified Stock during this period.

For the avoidance of doubt, any payments made by the Issuer or any Restricted Subsidiary under any domination agreement and profit and loss transfer agreement (including the Domination Agreement) to minority shareholders shall constitute Fixed Charges.

“*GAAP*” means generally accepted accounting principles in the United States of America.

“*German Holdco*” means Nidda Healthcare GmbH.

“*German Takeover Code*” means the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*).

“*Guarantee*” means, any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

- (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or
- (2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

*provided, however*, that the term “*Guarantee*” will not include (x) endorsements for collection or deposit in the ordinary course of business or consistent with past practice and (y) standard contractual indemnities or product warranties provided in the ordinary course of business, and *provided further* that the amount of any Guarantee shall be deemed to be the lower of (i) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made and (ii) the maximum amount for which such guaranteeing Person may be liable pursuant to the terms of the instrument embodying such Guarantee or, if such Guarantee is not an unconditional guarantee of the entire amount of the primary obligation and such maximum amount is not stated or determinable, the amount of such guaranteeing Person’s maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith. The term “*Guarantee*” used as a verb has a corresponding meaning.

“*Guarantor*” means any Restricted Subsidiary that Guarantees the Senior Secured Notes, until such Senior Secured Notes Guarantee is released in accordance with the terms of the Senior Secured Notes Indenture.

“*Hedging Obligations*” means, with respect to any Person, the obligations of such Person under any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, commodity swap agreement, commodity cap agreement, commodity collar agreement, foreign exchange contracts, currency swap agreement or similar agreement providing for the transfer or mitigation of interest rate, commodity price or currency risks either generally or under specific contingencies.

“*Holder*” means each Person in whose name the Senior Secured Notes are registered on the Registrar’s books, which shall initially be the respective nominee of Euroclear or Clearstream, as applicable.

“*IFRS*” means International Financial Reporting Standards (formerly International Accounting Standards) endorsed from time to time by the European Union or any variation thereof with which the Issuer or the Restricted Subsidiaries are, or may be, required to comply, as in effect on the Original Issue Date or, with respect to the covenant described under the caption “*Reports*,” as in effect from time to time. Except as otherwise set forth in the Senior Secured Notes Indenture, all ratios and calculations based on IFRS contained in the Senior Secured Notes Indenture shall be computed in accordance with IFRS as in effect on the Original Issue Date. At any time after the Original Issue Date, the Issuer may elect to establish that IFRS shall mean IFRS as in effect on or prior to the date of such election; *provided* that any such election, once made, shall be irrevocable. At any time after the Original Issue Date, the Issuer may elect to apply GAAP accounting principles in lieu of IFRS and, upon any such election, references herein to IFRS shall thereafter be construed to mean GAAP (except as otherwise provided in the Senior Secured Notes Indenture), including as to the ability of the Issuer to make an election pursuant to the previous sentence; *provided* that any such election, once made, shall be irrevocable; *provided, further*, that any calculation or determination in the Senior Secured Notes Indenture that require the application of IFRS for periods that include fiscal quarters ended prior to the Issuer’s election to apply GAAP shall remain as previously calculated or determined in accordance with IFRS; *provided, further again*, that the Issuer may only make such election if it also elects to report any subsequent financial reports required to be made by the Issuer. The Issuer shall give notice of any such election made in accordance with this definition to the Trustee and the Holders. Notwithstanding any of the foregoing, the impact of IFRS 16 (*Leases*) and any successor standard thereto (or any equivalent measure under GAAP) shall be disregarded with respect to all ratios, calculations and determinations based upon IFRS to be calculated or made, as the case may be, pursuant to the Senior Secured Notes Indenture and (without limitation) any lease, concession or license of property that would be considered an operating lease under IFRS (or, as applicable, GAAP) as of the

Original Issue Date and any guarantee given by the Issuer or any Restricted Subsidiary in the ordinary course of business solely in connection with, and in respect of, the obligations of the Issuer or any Restricted Subsidiary under any such operating lease shall be accounted for in accordance with IFRS (or, as applicable, GAAP) as in effect on the Original Issue Date.

*“Immaterial Subsidiary”* means, at any date of determination, each Restricted Subsidiary that (i) has not guaranteed any other Indebtedness of the Issuer and (ii) has Total Assets of less than 5.0% of Total Assets, revenues of less than 5.0% of the consolidated revenues of the Issuer and the Restricted Subsidiaries and LTM EBITDA of less than 5.0% of LTM EBITDA of the Issuer and the Restricted Subsidiaries taken as a whole and, together with all other Immaterial Subsidiaries (as determined in accordance with IFRS), has Total Assets of less than 10.0% of Total Assets and revenues of less than 10.0% of total revenues of the Issuer and the Restricted Subsidiaries taken as a whole, in each case, measured at the end of the most recent four-quarter fiscal period for which internal financial statements are available and revenues on a pro forma basis giving effect to any acquisitions or dispositions of companies, division or lines of business since such balance sheet date or the start of such four quarter period, as applicable, and on or prior to the date of acquisition of such Subsidiary.

*“Immediate Family Members”* means, with respect to any individual, such individual’s child, stepchild, grandchild or more remote descendant, parent, stepparent, grandparent, spouse, former spouse, qualified domestic partner, sibling, mother-in-law, father-in-law, son-in-law and daughter-in-law (including adoptive relationships) and any trust, partnership or other bona fide estate-planning vehicle the only beneficiaries of which are any of the foregoing individuals or any private foundation or fund that is controlled by any of the foregoing individuals or any donor-advised fund of which any such individual is the donor.

*“Incur”* means issue, create, assume, enter into any Guarantee of, incur, extend or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, amalgamation, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and the terms “Incurred” and “Incurrence” have meanings correlative to the foregoing and any Indebtedness pursuant to any revolving credit or similar facility shall only be “Incurred” at the time any funds are borrowed thereunder, subject to the definition of Reserved Indebtedness Amount and related provisions; *provided further, however*, that amounts drawn under any Senior Term Loan and deposited into a Senior Term Loan Escrow Account shall not be deemed to be Incurred until such proceeds are withdrawn from such Senior Term Loan Escrow Account for a purpose other than prepayment of such Senior Term Loan.

*“Indebtedness”* means, with respect to any Person on any date of determination (without duplication):

- (1) the principal of indebtedness of such Person for borrowed money;
- (2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all reimbursement obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments (the amount of such obligations being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit or other instruments plus the aggregate amount of drawings thereunder that have not been reimbursed) (except to the extent such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of Incurrence);
- (4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables or similar obligation, including accrued expenses owed, to a trade creditor), which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto;
- (5) Capitalized Lease Obligations of such Person;
- (6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);
- (7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date

of determination (as determined in good faith by the Issuer) and (b) the amount of such Indebtedness of such other Persons;

- (8) Guarantees by such Person of the principal component of Indebtedness of the type referred to in clauses (1), (2), (3), (4), (5) and (9) of other Persons to the extent Guaranteed by such Person; and
- (9) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to the net payments under such agreement or arrangement giving rise to such obligation that would be payable by such Person at the termination of such agreement or arrangement),

with respect to clauses (1), (2), (4) and (5) above, if and to the extent that any of the foregoing Indebtedness (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet (excluding the footnotes thereto) of such Person prepared in accordance with IFRS.

The amount of any Indebtedness outstanding as of any date shall be (a) the accreted value thereof in the case of any Indebtedness issued with original issue discount and (b) the principal amount of Indebtedness, or liquidation preference thereof, in the case of any other Indebtedness.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

- (i) Contingent Obligations Incurred in the ordinary course of business or consistent with past practice, other than Guarantees or other assumptions of Indebtedness;
- (ii) Cash Management Services;
- (iii) any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Original Issue Date or any prepayments of deposits received from clients or customers in the ordinary course of business or consistent with past practice;
- (iv) obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Original Issue Date or in the ordinary course of business or consistent with past practice;
- (v) in connection with the purchase by the Issuer or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided, however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid in a timely manner;
- (vi) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes;
- (vii) obligations under or in respect of Qualified Securitization Financings or Receivables Facilities;
- (viii) Indebtedness of any Parent Entity appearing on the balance sheet of the Issuer solely by reason of push down accounting under IFRS;
- (ix) Capital Stock (other than Disqualified Stock of the Issuer and Preferred Stock of a Restricted Subsidiary);
- (x) amounts owed to: (A) dissenting stockholders pursuant to applicable law (including in connection with, or as a result of, exercise of appraisal rights and the settlement of any claims or action (whether actual, contingent or potential)), pursuant to or in connection with a consolidation, merger or transfer of all or substantially all of the assets of the Issuer and the Restricted Subsidiaries, taken as a whole, that complies with the covenant described under "*Merger and Consolidation*"; or (B) minority shareholders in connection with any domination and profit and loss transfer agreement (including the Domination Agreement);
- (xi) Subordinated Shareholder Funding;
- (xii) amounts drawn under any Senior Term Loan and deposited into an applicable Senior Term Loan Escrow Account prior to the date such proceeds are withdrawn therefrom to be used for a purpose other than prepayment of such Senior Term Loan;



- (xiii) any liability pursuant to or in connection with a declaration of joint and several liability as referred to in section 2:403 Dutch Civil Code (and any residual liability under such declaration, as referred to in section 2:404 (2) of the Dutch Civil Code); or
- (xiv) any joint and several liability or any netting or set-off arrangement arising in each case by operation of law as a result of the existence or establishment of a fiscal unity (*fiscale eenheid*) for Dutch corporate income tax or value added tax purposes or any analogous arrangement in any other jurisdiction of which the Issuer or a Restricted Subsidiary is or becomes a member.

“*Independent Financial Advisor*” means an investment banking or accounting firm of international standing or any third party appraiser of international standing; *provided, however*, that such firm or appraiser is not an Affiliate of the Issuer.

“*Initial Investors*” means (a) individually or collectively, one or more investment funds, co-investment vehicles, limited partnerships and/or other similar vehicles or accounts in each case advised or managed by (i) Bain Capital Private Equity (Europe) LLP, (ii) Cinven Partners LLP and/or (iii) Partners Group AG and (b) any of their successors, Affiliates or direct or indirect Subsidiaries (but excluding, in each case, any portfolio company which is an obligor (and any of its Subsidiaries) in respect of any third party financing provided to that portfolio company (or any of its Subsidiaries) in which the parties listed in clause (a) above or such Affiliates, Subsidiaries or investors hold an investment or interest in).

“*Initial Public Offering*” means an Equity Offering of common stock or other common equity interests of the Issuer or any Parent Entity or any successor of the Issuer or any Parent Entity (the “*IPO Entity*”) following which there is a public market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

“*Intercreditor Agreement*” means the Intercreditor Agreement dated August 17, 2017, by and among, *inter alios*, the Issuer and the Security Agent and to which the Trustee will accede, as amended from time to time.

“*Investment*” means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of advances, loans or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business or consistent with past practice, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet prepared on the basis of IFRS; *provided, however*, that endorsements of negotiable instruments and documents in the ordinary course of business or consistent with past practice will not be deemed to be an Investment. If the Issuer or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Issuer or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time.

For purposes of “*Certain Covenants—Limitation on Restricted Payments*” and “*—Designation of Restricted and Unrestricted Subsidiaries*”:

- (1) “*Investment*” will include the portion (proportionate to the Issuer’s equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided, however*, that upon a re-designation of such Subsidiary as a Restricted Subsidiary, the Issuer will be deemed to continue to have a permanent “*Investment*” in an Unrestricted Subsidiary in an amount (if positive) equal to (a) the Issuer’s “*Investment*” in such Subsidiary at the time of such re-designation less (b) the portion (proportionate to the Issuer’s equity interest in such Subsidiary) of the fair market value of the net assets (as determined by the Issuer) of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and
- (2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined by the Issuer.



*“Investment Grade Securities”* means:

- (1) securities issued or directly and fully Guaranteed or insured by the United States of America or Canadian government or any agency or instrumentality thereof (other than Cash Equivalents);
- (2) securities issued or directly and fully guaranteed or insured by the European Union or a member state of the European Union, Switzerland, Japan, Australia or Norway or any agency or instrumentality thereof (other than Cash Equivalents);
- (3) debt securities or debt instruments with a rating of “A –” or higher from S&P or “A3” or higher by Moody’s or the equivalent of such rating by such rating organization or, if no rating of Moody’s or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization, but excluding any debt securities or instruments constituting loans or advances among the Issuer and its Subsidiaries; and
- (4) Investments in any fund that invests exclusively in investments of the type described in clauses (1), (2) and (3) above which fund may also hold cash and Cash Equivalents pending investment or distribution.

*“Investment Grade Status”* shall occur when the Senior Secured Notes receive two of the following:

- (1) a rating of “BBB –” or higher from S&P;
- (2) a rating of “Baa3” or higher from Moody’s; or
- (3) a rating of “BBB –” or higher from Fitch,

or the equivalent of such rating by such rating organization or, if no rating of S&P, Moody’s or Fitch then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

*“IPO Market Capitalization”* means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

*“Lien”* means any mortgage, pledge, security interest, encumbrance, lien, hypothecation or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof); *provided* that in no event shall an operating lease be deemed to constitute a Lien.

*“LTM EBITDA”* means Consolidated EBITDA of the Issuer measured for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated financial statements of the Issuer are available, in each case with such pro forma adjustments giving effect to such Indebtedness, acquisition or Investment, as applicable, since the start of such four quarter period and as are consistent with the pro forma adjustments set forth in the definition of “Fixed Charge Coverage Ratio” (excluding, for the avoidance of doubt, the further proviso to the first paragraph of such definition).

*“Management Advances”* means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees, contractors or consultants (or their respective Controlled Investment Affiliates or Immediate Family Members) of any Parent Entity, the Issuer or any Restricted Subsidiary, or to any management equity plan, stock option plan, any other management or employee benefit, bonus or incentive plan or any trust, partnership or other entity of, established for the benefit of, or the beneficial owner of which (directly or indirectly) is, any of the foregoing:

- (1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or consistent with past practice or (b) for purposes of funding any such person’s purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of the Issuer, its Subsidiaries or any Parent Entity with the approval of the Board of Directors of the Issuer;
- (2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or
- (3) not exceeding the greater of (i) €25.0 million and (ii) 5.0% of LTM EBITDA in the aggregate outstanding at the time of Incurrence.

*“Management Stockholders”* means the members of management of the Issuer (or any Parent Entity) or its Subsidiaries who are holders of Capital Stock of the Issuer or of any Parent Entity on the Original Issue Date or will become holders of such Capital Stock in connection with the Transactions.

*“Market Capitalization”* means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interest of the IPO Entity on the date of the declaration of the relevant dividend, multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

*“Minority Shareholder”* means at any time following the Original Issue Date, any holder of Target Shares or Target Warrants who is not the Issuer or an Affiliate of the Issuer.

*“Moody’s”* means Moody’s Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

*“Nationally Recognized Statistical Rating Organization”* means a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) under the Securities Act.

*“Net Available Cash”* from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

- (1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid, reasonably estimated to be actually payable or accrued as a liability under IFRS (including, for the avoidance of doubt, any income, withholding and other Taxes payable as a result of the distribution of such proceeds to the Issuer and after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition, including distributions for Related Taxes;
- (2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which by applicable law be repaid out of the proceeds from such Asset Disposition;
- (3) all distributions and other payments required to be made to minority interest holders (other than any Parent Entity, the Issuer or any of its respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition;
- (4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Issuer or any Restricted Subsidiary after such Asset Disposition; and
- (5) any funded escrow established pursuant to the documents evidencing any such sale or disposition to secure any indemnification obligations or adjustments to the purchase price associated with any such Asset Disposition.

*“Net Cash Proceeds,”* with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, means the cash proceeds of such issuance or sale net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of Taxes paid or reasonably estimated to be actually payable as a result of such issuance or sale (including, for the avoidance of doubt, any income, withholding and other Taxes payable as a result of the distribution of such proceeds to the Issuer and after taking into account any available tax credit or deductions and any tax sharing agreements, and including distributions for Related Taxes).

*“New Issue Date”* means \_\_\_\_\_, 2019.

*“Non-Guarantor Debt Cap”* means an amount of (i) Indebtedness Incurred and/or Disqualified Stock or Preferred Stock issued pursuant to the first paragraph and clauses (1)(b), (1)(c), (1)(d), (11) and (13) of the second paragraph of the covenant described under *“Certain Covenants—Limitation on Indebtedness”* and (ii) Acquisition Debt Incurred pursuant to clause (v)(B) of the second paragraph of the covenant

described under “*Certain Covenants—Limitation on Indebtedness*,” in each case by Restricted Subsidiaries that are not Guarantors, which shall not in aggregate exceed the greater of (x) €200.0 million and (y) 40.0% of LTM EBITDA at any time outstanding.

“*Obligations*” means any principal, interest (including Post-Petition Interest and fees accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Issuer or any Guarantor whether or not a claim for Post-Petition Interest or fees is allowed in such proceedings), penalties, fees, indemnifications, reimbursements (including reimbursement obligations with respect to letters of credit and bankers’ acceptances), damages and other liabilities payable under the documentation governing any Indebtedness.

“*Offer*” means the voluntary public tender offer (*Freiwilliges Übernahmeangebot*) by the Issuer for the Target Shares.

“*Offering Memorandum*” means the offering memorandum, dated as of September 22, 2017, relating to the offering of Senior Secured Notes and the Senior Notes.

“*Officer*” means, with respect to any Person, (1) the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, any Assistant Treasurer, any Managing Director, the Secretary or any Assistant Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an “Officer” for the purposes of the Senior Secured Notes Indenture by the Board of Directors of such Person.

“*Officer’s Certificate*” means, with respect to any Person, a certificate signed by one Officer of such Person.

“*Opinion of Counsel*” means a written opinion from legal counsel that is reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to the Issuer or its Subsidiaries.

“*Original Issue Date*” means September 29, 2017.

“*Parent Entity*” means any direct or indirect parent of the Issuer.

“*Parent Entity Expenses*” means:

- (1) costs (including all legal, accounting and other professional fees and expenses) Incurred by any Parent Entity in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Senior Secured Notes Indenture or any other agreement or instrument relating to the Senior Secured Notes, the Senior Secured Notes Guarantees or any other Indebtedness of the Issuer or any Restricted Subsidiary, including in respect of any reports filed or delivered with respect to the Securities Act, Exchange Act or the respective rules and regulations promulgated thereunder;
- (2) customary indemnification obligations of any Parent Entity owing to directors, officers, employees or other Persons under its articles, charter, by-laws, partnership agreement or other organizational documents or pursuant to written agreements with any such Person to the extent relating to the Issuer and its Subsidiaries;
- (3) obligations of any Parent Entity in respect of director and officer insurance (including premiums therefor) to the extent relating to the Issuer and its Subsidiaries;
- (4) any (x) general corporate overhead expenses, including all legal, accounting and other professional fees and expenses and (y) other operational expenses of any Parent Entity related to the ownership or operation of the business of the Issuer or any of the Restricted Subsidiaries;
- (5) expenses Incurred by any Parent Entity in connection with (i) any offering, sale, conversion or exchange of Subordinated Shareholder Funding, Capital Stock or Indebtedness and (ii) any related compensation paid to officers, directors and employees of such Parent Entity; and
- (6) amounts to finance Investments that would otherwise be permitted to be made pursuant to the covenant described above under “*Certain Covenants—Limitation on Restricted Payments*” if made by the Issuer or a Restricted Subsidiary; *provided that* (A) such Restricted Payment shall be made substantially concurrently with the closing of such Investment, (B) such direct or indirect parent company shall, immediately following the closing thereof, cause (1) all property acquired (whether assets or Capital Stock) to be contributed to the capital of the Issuer or one of the Restricted

Subsidiaries or (2) the merger, consolidation or amalgamation of the Person formed or acquired into the Issuer or one of the Restricted Subsidiaries in order to consummate such Investment, (C) such direct or indirect parent company and its Affiliates (other than the Issuer or a Restricted Subsidiary) receives no consideration or other payment in connection with such transaction except to the extent the Issuer or a Restricted Subsidiary could have given such consideration or made such payment in compliance with the Senior Secured Notes Indenture and such consideration or other payment is included as a Restricted Payment under the Senior Secured Notes Indenture, (D) any property received by the Issuer shall not increase amounts available for Restricted Payments pursuant to clause (c) of the first paragraph of the covenant described under “*Certain Covenants—Limitation on Restricted Payments*” or be an Excluded Contribution or Excluded Amount and (E) such Investment shall be deemed to be made by the Issuer or such Restricted Subsidiary pursuant to a provision of the covenant described under “*Certain Covenants—Limitation on Restricted Payments*” or pursuant to the definition of “Permitted Investments.”

“*Pari Passu Indebtedness*” means Indebtedness (a) of the Issuer which ranks equally in right of payment to the Senior Secured Notes or (b) of any Guarantor which ranks equally in right of payment to the Senior Secured Notes Guarantee of such Guarantor.

“*Paying Agent*” means any Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Senior Secured Note on behalf of the Issuer.

“*Permitted Asset Swap*” means the concurrent purchase and sale or exchange of assets used or useful in a Similar Business or a combination of such assets and cash, Cash Equivalents between the Issuer or any of the Restricted Subsidiaries and another Person; *provided* that any cash or Cash Equivalents received in excess of the value of any cash or Cash Equivalents sold or exchanged must be applied in accordance with the covenant described under “*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*.”

“*Permitted Collateral Liens*” means Liens on the Collateral:

- (a) that are described in one or more of clauses (3), (4), (5), (6), (7), (8), (15), (17), (18), (24), (26) and (34) of the definition of “*Permitted Liens*” and Liens arising by operation of law that would not materially interfere with the ability of the Security Agent to enforce the Security Interests in the Collateral;
- (b) to secure all obligations (including paid-in-kind interest) in respect of:
  - (i) the Senior Secured Notes (other than Additional Senior Secured Notes), including any Senior Secured Notes Guarantee;
  - (ii) Indebtedness described under clause (1)(a) and (1)(b) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”; *provided* that up to an amount of Indebtedness equal to the greater of (x) €400.0 million and (y) 80.0% of LTM EBITDA Incurred under any revolving credit facility may have super senior priority status in respect of the proceeds from the enforcement of the Collateral and certain distressed disposals of assets, not materially less favorable to the Holders than that provided for in accordance with clause 18 (New Debt Financings) of the Intercreditor Agreement as in effect on the Original Issue Date;
  - (iii) Indebtedness described under clause (1)(c) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”;
  - (iv) Indebtedness described under clause (2) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*,” to the extent such guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this definition of Permitted Collateral Liens;
  - (v) Indebtedness described under clause (5)(b) of the second paragraph of “*Certain Covenants—Limitation on Indebtedness*,” and that is Incurred by the Issuer or a Guarantor; *provided* that if such Liens secure Senior Secured Indebtedness, at the time of such acquisition or other transaction and after giving pro forma effect to such acquisition or other transaction and to the related Incurrence of Indebtedness, the Consolidated Senior Secured Net Leverage Ratio of the Issuer would have been either (x) no greater than 5.00 to 1.00 or (y) no greater than it was immediately prior to giving effect to the relevant transaction;
  - (vi) Indebtedness described under clause (6) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”; *provided* that obligations under any



interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, foreign exchange contracts, currency swap agreement or similar agreement providing for the transfer or mitigation of interest rate or currency risks entered into with respect to any Indebtedness Incurred in compliance with the covenant described under “*Certain Covenants—Limitation on Indebtedness*” may have super senior priority status in respect of the proceeds from the enforcement of the Collateral and certain distressed disposals of assets, not materially less favorable to the Holders than that accorded to a relevant revolving credit facility (if benefitting from super senior priority status) as described under clause (ii) above pursuant to the Intercreditor Agreement as in effect on the Original Issue Date;

- (vii) Indebtedness described under clauses (4)(a), (4)(b), (4)(c), (5)(a), (7) (other than with respect to Capitalized Lease Obligations), (10), (13) or (19) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”;
- (viii) Indebtedness described under the first paragraph or clause (1)(d) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”; *provided* that with respect to liens securing Senior Secured Indebtedness, at the time of Incurrence and after giving pro forma effect thereto, the Consolidated Senior Secured Net Leverage Ratio would be no greater than 5.00 to 1.00; or
- (ix) any Refinancing Indebtedness in respect of Indebtedness referred to in the foregoing clauses (i) to (viii); or
- (c) Incurred in the ordinary course of business of the Issuer or any of the Restricted Subsidiaries with respect to obligations that in total do not exceed the greater of (i) €25.0 million and (ii) 5.0% of LTM EBITDA at any time outstanding and that (x) are not Incurred in connection with the borrowing of money and (iii) do not in the aggregate materially detract from the value of the property or materially impair the use thereof or the operation of the Issuer’s or such Restricted Subsidiary’s business,

*provided*, that, in the case of clauses (b) and (c) of this definition of “*Permitted Collateral Liens*,” each of the secured parties to any such Indebtedness that exceeds an aggregate amount equal to the greater of (x) €50.0 million and (y) 10.0% of LTM EBITDA (acting directly or through its respective creditor representative) will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement and *provided further* that for purposes of determining compliance with this definition, in the event that a Permitted Collateral Lien meets the criteria of more than one of the categories of Permitted Collateral Liens described in paragraphs (a) through (c) above, the Issuer will be permitted to classify such Permitted Collateral Lien on the date of its incurrence and reclassify such Permitted Collateral Lien at any time and in any manner that complies with this definition and *provided further* that Permitted Collateral Liens may not have super senior priority status in respect of the proceeds from the enforcement of the Collateral or a distressed disposal of assets, other than as permitted by clauses (ii) or (vi) above, save that nothing in this definition shall prevent lenders under any Credit Facilities from providing for any ordering of payments under the various tranches of such Credit Facilities.

“*Permitted Holdco Transactions*” means any merger (on a solvent basis) of a German Holdco with the Target, with German Holdco as the surviving entity, and/or any merger (on a solvent basis) of German Holdco with the Issuer with the Issuer as the surviving entity; *provided* that to the extent that any Security Interests granted over the shares in the capital of a Person or other assets of a Person subject to a Permitted Holdco Transaction constituted a Lien in favor of the Senior Secured Notes immediately prior to a Permitted Holdco Transaction, the direct holding company of the relevant surviving entity of the Permitted Holdco Transaction and/or such surviving entity shall, subject to the Agreed Security Principles, grant Security Interests over the shares in the capital and such other assets of such surviving entity on substantially equivalent terms to any Security Interests granted over the shares in the capital or other assets of such predecessor Person immediately prior to such Permitted Holdco Transaction.

“*Permitted Holders*” means, collectively, (i) the Initial Investors, (ii) any one or more Persons, together with such Persons’ Affiliates, whose beneficial ownership constitutes or results in a Change of Control Triggering Event in respect of which a Change of Control Offer is made in accordance with the requirements of the Senior Secured Notes Indenture, (iii) the Management Stockholders, (iv) any Person who is acting solely as an underwriter in connection with a public or private offering of Capital Stock of any Parent Entity or the Issuer, acting in such capacity, and (v) any group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act or any successor provision) of which any of the foregoing are members; *provided* that, in the case of such group and without giving effect to the existence



of such group or any other group, Persons referred to in subclauses (i) through (iv), collectively, have beneficial ownership of more than 50% of the total voting power of the Voting Stock of the Issuer or any Parent Entity held by such group.

“*Permitted Investment*” means (in each case, by the Issuer or any of the Restricted Subsidiaries):

- (1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary) or the Issuer or (b) a Person (including the Capital Stock of any such Person) that will, upon the making of such Investment, become a Restricted Subsidiary;
- (2) Investments in another Person and as a result of such Investment such other Person is merged, amalgamated, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, the Issuer or a Restricted Subsidiary;
- (3) Investments in cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;
- (4) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business or consistent with past practice;
- (5) Investments in payroll, travel, relocation, entertainment and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business or consistent with past practice;
- (6) Management Advances;
- (7) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business or consistent with past practice and owing to the Issuer or any Restricted Subsidiary or in exchange for any other Investment or accounts receivable held by the Issuer or any such Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor or otherwise with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;
- (8) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition;
- (9) Investments existing or pursuant to agreements or arrangements in effect on the Original Issue Date and any modification, replacement, renewal or extension thereof; *provided* that the amount of any such Investment may not be increased except (a) as required by the terms of such Investment as in existence on the Original Issue Date or (b) as otherwise not prohibited under the Senior Secured Notes Indenture;
- (10) Hedging Obligations, which transactions or obligations are Incurred in compliance with “*Certain Covenants—Limitation on Indebtedness*”;
- (11) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of “*Permitted Liens*” or made in connection with Liens permitted under the covenant described under “*Certain Covenants—Limitation on Liens*”;
- (12) any Investment to the extent made using Capital Stock of the Issuer (other than Disqualified Stock), Subordinated Shareholder Funding or Capital Stock of any Parent Entity as consideration;
- (13) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Affiliate Transactions*” (except those described in clauses (1), (3), (6), (7), (8), (9), (12) and (14) of that paragraph);
- (14) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business or consistent with past practices, and in accordance with the Senior Secured Notes Indenture;
- (15) any (a) Guarantees of Indebtedness not prohibited by the covenant described under “*Certain Covenants—Limitation on Indebtedness*” and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business, and (b) performance guarantees with respect to obligations that are not prohibited by the Senior Secured Notes Indenture;

- (16) Investments consisting of earnest money deposits required in connection with a purchase agreement, or letter of intent, or other acquisitions to the extent not otherwise prohibited by the Senior Secured Notes Indenture;
- (17) Investments of a Restricted Subsidiary acquired after the Original Issue Date or of an entity merged or amalgamated into the Issuer or merged or amalgamated into or consolidated with a Restricted Subsidiary after the Original Issue Date to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;
- (18) Investments consisting of licensing or contribution of intellectual property pursuant to joint marketing arrangements with other Persons;
- (19) contributions to a “rabbi” trust for the benefit of employees or other grantor trust subject to claims of creditors in the case of a bankruptcy of the Issuer;
- (20) Investments in joint ventures and similar entities and Unrestricted Subsidiaries having an aggregate fair market value, when taken together with all other Investments made pursuant to this clause that are at the time outstanding, not to exceed the greater of (a) €150.0 million and (b) 30.0% of LTM EBITDA at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value), plus the amount of any returns (including dividends, payments, interest, distributions, returns of principal, profits on sale, repayments, income and similar amounts) in respect of such Investments (without duplication for purposes of the covenant described in the section entitled “*Certain Covenants—Limitation on Restricted Payments*” of any amounts applied pursuant to clause (c) of the first paragraph of such covenant) with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value; *provided, however*, that if any Investment pursuant to this clause is made in any Person that is not the Issuer or a Restricted Subsidiary at the date of the making of such Investment and such Person becomes the Issuer or a Restricted Subsidiary after such date, such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) above and shall cease to have been made pursuant to this clause for so long as such Person continues to be the Issuer or a Restricted Subsidiary;
- (21) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (21) that are at that time outstanding, not to exceed the greater of (a) €175.0 million and (b) 35.0% of LTM EBITDA (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value), plus the amount of any returns (including dividends, payments, interest, distributions, returns of principal, profits on sale, repayments, income and similar amounts) in respect of such Investments (without duplication for purposes of the covenant described in the section entitled “*Certain Covenants—Limitation on Restricted Payments*” of any amounts applied pursuant to clause (c) of the first paragraph of such covenant) with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value; *provided, however*, that if any Investment pursuant to this clause is made in any Person that is not the Issuer or a Restricted Subsidiary at the date of the making of such Investment and such Person becomes the Issuer or a Restricted Subsidiary after such date, such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) above and shall cease to have been made pursuant for so long as such Person continues to be the Issuer or a Restricted Subsidiary;
- (22) any Investment in a Similar Business having an aggregate fair market value, taken together with all other Investments made pursuant to this clause that are at that time outstanding, not to exceed the greater of (a) €125.0 million and (b) 25.0% of LTM EBITDA (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value), plus the amount of any returns (including dividends, payments, interest, distributions, returns of principal, profits on sale, repayments, income and similar amounts) in respect of such Investments (without duplication for purposes of the covenant described in the section entitled “*Certain Covenants—Limitation on Restricted Payments*” of any amounts applied pursuant to clause (c) of the first paragraph of such covenant) with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value; *provided, however*, that if any Investment pursuant to this clause is made in any Person that is not the Issuer or a Restricted Subsidiary at the date of the making of such Investment and such Person becomes the Issuer or a Restricted Subsidiary after such date, such Investment shall thereafter be deemed to have been made

pursuant to clause (1) or (2) above and shall cease to have been made pursuant to this clause for so long as such Person continues to be the Issuer or a Restricted Subsidiary;

- (23) Investments (a) arising in connection with a Qualified Securitization Financing or Receivables Facility and (b) constituting distributions or payments of Securitization Fees and purchases of Securitization Assets or Receivables Assets in connection with a Qualified Securitization Financing or Receivables Facility;
- (24) Investments in connection with the Transactions;
- (25) Investments (including repurchases) in Indebtedness of the Issuer and the Restricted Subsidiaries;
- (26) Investments by an Unrestricted Subsidiary entered into prior to the day such Unrestricted Subsidiary is re-designated as a Restricted Subsidiary as described under “*Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries*”;
- (27) guaranty and indemnification obligations arising in connection with surety bonds issued in the ordinary course of business;
- (28) Investments consisting of purchases and acquisitions of assets or services in the ordinary course of business or consistent with past practice or made in the ordinary course of business or consistent with past practice in connection with obtaining, maintaining or renewing client contacts and loans or advances made to distributors in the ordinary course of business;
- (29) Investments in prepaid expenses, negotiable instruments held for collection and lease, utility and workers compensation, performance and similar deposits entered into as a result of the operations of the business in the ordinary course of business or consistent with past practice;
- (30) Investments in the ordinary course of business consisting of Uniform Commercial Code Article 3 endorsements for collection of deposit and Article 4 customary trade arrangements with customers consistent with past practices; and
- (31) transactions entered into in order to consummate a Permitted Tax Restructuring.

“*Permitted Liens*” means, with respect to any Person:

- (1) Liens on assets or property of a Restricted Subsidiary that is not a Guarantor securing Indebtedness and other Obligations of any Restricted Subsidiary that is not a Guarantor;
- (2) pledges, deposits or Liens under workmen’s compensation laws, old-age-part-time arrangements, payroll taxes, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure the performance of bids, trade contracts, government contracts and leases, statutory obligations, surety, stay, indemnity, judgment, customs, appeal or performance bonds, guarantees of government contracts, return-of-money bonds, bankers’ acceptance facilities (or other similar bonds, instruments or obligations), obligations in respect of letters of credit, bank guarantees or similar instruments that have been posted to support the same, or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business; or consistent with past practice;
- (3) Liens with respect to outstanding motor vehicle fines and Liens imposed by law, including carriers’, warehousemen’s, mechanics’, landlords’, materialmen’s, repairmen’s, construction contractors’ or other like Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;
- (4) Liens for Taxes, assessments or governmental charges which are not overdue for a period of more than 30 days or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves required pursuant to IFRS (or other applicable accounting principles) have been made in respect thereof;
- (5) encumbrances, charges, ground leases, easements (including reciprocal easement agreements), survey exceptions, restrictions, encroachments, protrusions, by-law, regulation, zoning restrictions or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including

minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Issuer and the Restricted Subsidiaries or to the ownership of their properties, including servicing agreements, development agreements, site plan agreements, subdivision agreements, facilities sharing agreements, cost sharing agreements and other agreements, which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Issuer and the Restricted Subsidiaries;

- (6) Liens (a) on assets or property of the Issuer or any Restricted Subsidiary securing Hedging Obligations or Cash Management Services permitted under the Senior Secured Notes Indenture; (b) that are statutory, common law or contractual rights of set-off (including, for the avoidance of doubt, Liens arising under the general terms and conditions of banks or saving banks (*Allgemeine Geschäftsbedingungen der Banken und Sparkassen*)) or, in the case of clause (i) or (ii) below, other bankers' Liens (i) relating to treasury, depository and Cash Management Services or any automated clearing house transfers of funds in the ordinary course of business and not given in connection with the issuance of Indebtedness, (ii) relating to pooled deposit or sweep accounts to permit satisfaction of overdraft or similar obligations Incurred in the ordinary course of business of the Issuer or any Subsidiary of the Issuer or (iii) relating to purchase orders and other agreements entered into with customers of the Issuer or any Restricted Subsidiary in the ordinary course of business; (c) on cash accounts securing Indebtedness and other Obligations permitted to be Incurred under clauses (8)(d) or (8)(e) of the second paragraph of the covenant described under "*Certain Covenants—Limitation on Indebtedness*" with financial institutions; (d) encumbering reasonable customary initial deposits and margin deposits and similar Liens attaching to commodity trading accounts or other brokerage accounts Incurred in the ordinary course of business, consistent with past practice and not for speculative purposes; (e) of a collection bank arising under Section 4-210 of the UCC on items in the course of collection; (f) in favor of a banking institution arising as a matter of law encumbering deposits (including the right of set-off) arising in the ordinary course of business in connection with the maintenance of such accounts and/or (g) arising under customary general terms of the account bank in relation to any bank account maintained with such bank and attaching only to such account and the products and proceeds thereof, which Liens, in any event, do not secure any Indebtedness;
- (7) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;
- (8) Liens securing or otherwise arising out of judgments, decrees, attachments, orders or awards not giving rise to an Event of Default so long as (a) any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated, (b) the period within which such proceedings may be initiated has not expired or (c) no more than 60 days have passed after (i) such judgment, decree, order or award has become final or (ii) such period within which such proceedings may be initiated has expired;
- (9) Liens (i) on assets or property of the Issuer or any Restricted Subsidiary for the purpose of securing Capitalized Lease Obligations, or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing Indebtedness or other Obligations Incurred to finance or refinance the acquisition, improvement or construction of, assets or property acquired or constructed in the ordinary course of business or consistent with past practice; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under the Senior Secured Notes Indenture and (b) any such Liens may not extend to any assets or property of the Issuer or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property and (ii) any interest or title of a lessor under any Capitalized Lease Obligations or operating lease;
- (10) Liens perfected or evidenced by UCC financing statement filings, including precautionary UCC financing statements (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Issuer and the Restricted Subsidiaries in the ordinary course of business;
- (11) (a) Liens existing on, or provided for or required to be granted under written agreements existing on, the Original Issue Date (other than Liens securing the Senior Facilities);
- (12) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary (or at the time the Issuer or a Restricted Subsidiary acquires such property,



- other assets or shares of stock, including any acquisition by means of a merger, amalgamation, consolidation or other business combination transaction with or into the Issuer or any Restricted Subsidiary); *provided, however*, that such Liens are not created, Incurred or assumed in anticipation of or in connection with such other Person becoming a Restricted Subsidiary (or such acquisition of such property, other assets or stock); *provided further*, that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;
- (13) Liens on assets or property of the Issuer or any Restricted Subsidiary securing Indebtedness or other Obligations of the Issuer or such Restricted Subsidiary owing to the Issuer or another Restricted Subsidiary, or Liens in favor of the Issuer or any Restricted Subsidiary;
  - (14) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that were previously so secured, and permitted to be secured under the Senior Secured Notes Indenture; *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness or other Obligations being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;
  - (15) Liens constituting (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Issuer or any Restricted Subsidiary has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;
  - (16) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement;
  - (17) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;
  - (18) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;
  - (19) Liens securing Indebtedness and other Obligations under clauses (11) or (19) (*provided* that, in the case of clause (11), such Liens cover only the assets of such Subsidiary) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*”;
  - (20) Permitted Collateral Liens;
  - (21) Liens (a) on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary and (b) then existing with respect to assets of an Unrestricted Subsidiary on the day such Unrestricted Subsidiary is re-designated as a Restricted Subsidiary as described under “*Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries*”;
  - (22) any security granted over the marketable securities portfolio described in clause (8) of the definition of “Cash Equivalents” in connection with the disposal thereof to a third party;
  - (23) Liens on (a) goods the purchase price of which is financed by a documentary letter of credit issued for the account of the Issuer or any Restricted Subsidiary or Liens on bills of lading, drafts or other documents of title arising by operation of law or pursuant to the standard terms of agreements relating to letters of credit, bank guarantees and other similar instruments and (b) specific items of inventory of other goods and proceeds of any Person securing such Person’s obligations in respect of bankers’ acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
  - (24) Liens on equipment of the Issuer or any Restricted Subsidiary and located on the premises of any client or supplier in the ordinary course of business;



- (25) Liens on assets or securities deemed to arise in connection with and solely as a result of the execution, delivery or performance of contracts to sell such assets or securities if such sale is otherwise permitted by the Senior Secured Notes Indenture;
- (26) Liens arising by operation of law or contract on insurance policies and the proceeds thereof to secure premiums thereunder, and Liens, pledges and deposits in the ordinary course of business securing liability for premiums or reimbursement or indemnification obligations of (including obligations in respect of letters of credit or bank guarantees for the benefits of) insurance carriers;
- (27) Liens solely on any cash earnest money deposits made in connection with any letter of intent or purchase agreement permitted under the Senior Secured Notes Indenture;
- (28) Liens (a) on cash advances in favor of the seller of any property to be acquired in an Investment permitted pursuant to Permitted Investments to be applied against the purchase price for such Investment, and (b) consisting of an agreement to sell any property in an asset sale permitted under the covenant described under “*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*,” in each case, solely to the extent such Investment or asset sale, as the case may be, would have been permitted on the date of the creation of such Lien;
- (29) Liens securing Indebtedness and other Obligations in an aggregate principal amount not to exceed the greater of (a) €125.0 million and (b) 25.0% of LTM EBITDA at the time Incurred;
- (30) Liens deemed to exist in connection with Investments in repurchase agreements permitted by the covenant described under “*Certain Covenants—Limitation on Indebtedness*” provided that such Liens do not extend to any assets other than those that are the subject of such repurchase agreement;
- (31) Liens arising in connection with a Qualified Securitization Financing or a Receivables Facility;
- (32) Settlement Liens;
- (33) rights of recapture of unused real property in favor of the seller of such property set forth in customary purchase agreements and related arrangements with any government, statutory or regulatory authority;
- (34) the rights reserved to or vested in any Person or government, statutory or regulatory authority by the terms of any lease, license, franchise, grant or permit held by the Issuer or any Restricted Subsidiary or by a statutory provision, to terminate any such lease, license, franchise, grant or permit, or to require annual or periodic payments as a condition to the continuance thereof;
- (35) restrictive covenants affecting the use to which real property may be put;
- (36) Liens or covenants restricting or prohibiting access to or from lands abutting on controlled access highways or covenants affecting the use to which lands may be put; provided that such Liens or covenants do not interfere with the ordinary conduct of the business of the Issuer or any Restricted Subsidiary;
- (37) Liens arising in connection with any Permitted Tax Restructuring;
- (38) Liens required to be granted under mandatory law in favor of creditors as a consequence of a merger or conversion permitted under the Senior Secured Notes Indenture due to §§ 22, 204 German Transformation Act (*Umwandlungsgesetz—UmwG*);
- (39) Liens on Escrowed Proceeds or Liens for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of the Incurrence of any Indebtedness or government securities purchased with such cash, in either case, to the extent such cash or government securities are held in an escrow account or similar arrangement; and
- (40) Liens arising in connection with any joint and several liability or any netting or set-off arrangement arising in each case by operation of law as a result of the existence or establishment of a fiscal unity (*fiscale eenheid*) for Dutch corporate income tax or value added tax purposes or any analogous arrangement in any other jurisdiction of which the Issuer or a Restricted Subsidiary is or becomes a member.

In the event that a Permitted Lien meets the criteria of more than one of the types of Permitted Liens (at the time of incurrence or at a later date), the Issuer in its sole discretion may divide, classify or from time to time reclassify all or any portion of such Permitted Lien in any manner that complies with the Senior

Secured Notes Indenture and such Permitted Lien shall be treated as having been made pursuant only to the clause or clauses of the definition of Permitted Lien to which such Permitted Lien has been classified or reclassified.

*“Permitted Reorganization”* means any amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganization, winding up or corporate reconstruction involving the Issuer or any of the Restricted Subsidiaries (a *“Reorganization”*) that is made on a solvent basis; *provided* that:

- (a) any payments or assets distributed in connection with such Reorganization remain within the Issuer and the Restricted Subsidiaries; and
- (b) if any shares or other assets form part of the Collateral, substantially equivalent Liens must be granted over such shares or assets of the recipient such that they form part of the Collateral,

*provided further* that no Permitted Reorganization may override the provisions of the covenant described under *“Merger and Consolidation.”*

*“Permitted Tax Distribution”* means:

- (a) if and for so long as the Issuer is a member of a fiscal unity (whether resulting from a domination and profit or loss pooling agreement or otherwise) with any Parent Entity, any dividends or other distributions, intercompany loans or other intercompany balances to fund any income Taxes for which such Parent Entity is liable up to an amount not to exceed with respect to such Taxes the amount of any such Taxes that the Issuer and its Subsidiaries would have been required to pay on a separate company basis or on a consolidated basis calculated as if the Issuer and its Subsidiaries had paid Tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Issuer and its Subsidiaries; and
- (b) for any taxable year (or portion thereof) ending after the Original Issue Date for which the Issuer is treated as a disregarded entity, partnership, or other flow-through entity for federal, state, provincial, territorial, and/or local income Tax purposes, the payment of dividends or other distributions to the Issuer’s direct owner(s) to fund the income Tax liability of such owner(s) (or, if a direct owner is a pass-through entity, of the indirect owner(s)) for such taxable year (or portion thereof) attributable to the operations and activities of the Issuer and its direct and indirect Subsidiaries,

in an aggregate amount not to exceed the product of (x) the highest combined marginal federal and applicable state, provincial, territorial, and/or local statutory income Tax rate (after taking into account the deductibility of U.S. state and local income Tax for U.S. federal income Tax purposes) and (y) the taxable income of the Issuer for such taxable year (or portion thereof).

*“Permitted Tax Restructuring”* means any reorganizations and other activities related to tax planning and tax reorganization entered into prior to, on or after the date hereof so long as such Permitted Tax Restructuring is not materially adverse to the Holders (as determined by the Issuer in good faith).

*“Person”* means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

*“Post-Petition Interest”* means any interest or entitlement to fees or expenses or other charges that accrue after the commencement of any bankruptcy or insolvency proceeding, whether or not allowed or allowable as a claim in any such bankruptcy or insolvency proceeding.

*“Preferred Stock,”* as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

*“Public Debt”* means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (i) a public offering registered under the Securities Act and/or (ii) a private placement to institutional and other investors, in each case, that are not Affiliates of the Issuer, in accordance with Rule 144A and/or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

*“Public Offering”* means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an

offering pursuant to Rule 144A or Regulation S under the Securities Act to professional market investors or similar persons).

*“Purchase Money Obligations”* means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

*“Qualified Securitization Financing”* means any Securitization Facility that meets the following conditions: (i) the Board of Directors shall have determined in good faith that such Qualified Securitization Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to the Issuer and the Restricted Subsidiaries, (ii) all sales of Securitization Assets and related assets by the Issuer or any Restricted Subsidiary to the Securitization Subsidiary or any other Person are made for fair consideration (as determined in good faith by the Issuer) and (iii) the financing terms, covenants, termination events and other provisions thereof shall be fair and reasonable terms (as determined in good faith by the Issuer) and may include Standard Securitization Undertakings.

*“rating agencies”* means S&P, Moody’s and Fitch or if no rating of S&P, Moody’s or Fitch is publicly available, as the case may be, the equivalent of such rating selected by the Company by any other Nationally Recognized Statistical Ratings Organization.

*“Receivables Assets”* means (a) any accounts receivable owed to the Issuer or a Restricted Subsidiary subject to a Receivables Facility and the proceeds thereof and (b) all collateral securing such accounts receivable, all contracts and contract rights, guarantees or other obligations in respect of such accounts receivable, all records with respect to such accounts receivable and any other assets customarily transferred together with accounts receivable in connection with a non-recourse accounts receivable factoring arrangement and which are sold, conveyed, assigned or otherwise transferred or pledged by the Issuer or such Restricted Subsidiary (as applicable) in a transaction or series of transactions in connection with a Receivables Facility.

*“Receivables Facility”* means an arrangement between the Issuer or a Restricted Subsidiary and a counterparty pursuant to which (a) the Issuer or such Restricted Subsidiary, as applicable, sells (directly or indirectly) accounts receivable owing by customers, together with Receivables Assets related thereto, (b) the obligations of the Issuer or such Restricted Subsidiary, as applicable, thereunder are non-recourse (except for Securitization Repurchase Obligations) to the Issuer and such Restricted Subsidiary and (c) the financing terms, covenants, termination events and other provisions thereof shall be on market terms (as determined in good faith by the Issuer) and may include Standard Securitization Undertakings, and shall include any guaranty in respect of such arrangements.

*“Refinance”* means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms *“refinances,” “refinanced”* and *“refinancing”* as used for any purpose in the Senior Secured Notes Indenture shall have a correlative meaning.

*“Refinancing Indebtedness”* means Indebtedness that is Incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the Original Issue Date or Incurred in compliance with the Senior Secured Notes Indenture (including Indebtedness of the Issuer that refinances Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of the Issuer or another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; *provided, however*, that:

- (1) (a) such Refinancing Indebtedness has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is Incurred which is not less than the remaining Weighted Average Life to Maturity of the Indebtedness, Disqualified Stock or Preferred Stock being refunded or refinanced; and (b) to the extent such Refinancing Indebtedness refinances Subordinated Indebtedness, Disqualified Stock or Preferred Stock, such Refinancing Indebtedness is Subordinated Indebtedness, Disqualified Stock or Preferred Stock, respectively, and, in the case of Subordinated Indebtedness, is subordinated to the Senior Secured Notes and/or the Senior Secured Notes Guarantees (as applicable) on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced;

(2) Refinancing Indebtedness shall not include:

- (i) Indebtedness, Disqualified Stock or Preferred Stock of a Restricted Subsidiary that is not a Guarantor that refinances Indebtedness, Disqualified Stock or Preferred Stock of the Issuer or a Guarantor; or
  - (ii) Indebtedness, Disqualified Stock or Preferred Stock of the Issuer or a Restricted Subsidiary that refinances Indebtedness, Disqualified Stock or Preferred Stock of an Unrestricted Subsidiary; and
- (3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus fees and expenses, including premiums, accrued and unpaid interest and defeasance costs) under the Indebtedness being Refinanced.

Refinancing Indebtedness in respect of any Credit Facility or any other Indebtedness may be Incurred from time to time after the termination, discharge or repayment of any such Credit Facility or other Indebtedness.

*“Related Fund”* means in relation to a fund (the first fund), a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

*“Related Taxes”* means any Taxes, including sales, use, transfer, rental, *ad valorem*, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes and other fees and expenses (other than (x) Taxes measured by income and (y) withholding Taxes), required to be paid (*provided* that such Taxes are in fact paid) by any Parent Entity by virtue of its:

- (a) being organized or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, the Issuer or any of the Issuer’s Subsidiaries) or otherwise maintain its existence or good standing under applicable law;
- (b) being a holding company parent, directly or indirectly, of the Issuer or any Subsidiaries of the Issuer;
- (c) issuing or holding Subordinated Shareholder Funding;
- (d) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Issuer or any Subsidiaries of the Issuer; or
- (e) having made any (i) payment in respect to any of the items for which the Issuer is permitted to make payments to any Parent Entity pursuant to *“Certain Covenants—Limitation on Restricted Payments”* or (ii) Permitted Tax Distribution.

*“Reserved Indebtedness Amount”* has the meaning set forth in the covenant described under *“Certain Covenants—Limitation on Indebtedness.”*

*“Restricted Investment”* means any Investment other than a Permitted Investment.

*“Restricted Subsidiary”* means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

*“Revolving Credit Facility”* means the €400.0 million (equivalent) revolving credit facility under the Senior Facilities Agreement.

*“S&P”* means Standard & Poor’s Investors Ratings Services or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

*“Sale and Leaseback Transaction”* means any arrangement providing for the leasing by the Issuer or any of the Restricted Subsidiaries of any real or tangible personal property, which property has been or is to be sold or transferred by the Issuer or such Restricted Subsidiary to a third Person in contemplation of such leasing.

*“SEC”* means the Securities and Exchange Commission or any successor thereto.

*“Securities Act”* means the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

“*Securitization Asset*” means (a) any accounts receivable, mortgage receivables, loan receivables, royalty, patent or other revenue streams and other rights to payment or related assets and the proceeds thereof and (b) all collateral securing such receivable or asset, all contracts and contract rights, guarantees or other obligations in respect of such receivable or asset, lockbox accounts and records with respect to such account or asset and any other assets customarily transferred (or in respect of which security interests are customarily granted) together with accounts or assets in connection with a securitization, factoring or receivable sale transaction.

“*Securitization Facility*” means any of one or more securitization, financing, factoring or sales transactions, as amended, supplemented, modified, extended, renewed, restated or refunded from time to time, pursuant to which the Issuer or any of the Restricted Subsidiaries sells, transfers, pledges or otherwise conveys any Securitization Assets (whether now existing or arising in the future) to a Securitization Subsidiary or any other Person.

“*Securitization Fees*” means distributions or payments made directly or by means of discounts with respect to any Securitization Asset or participation interest therein issued or sold in connection with, and other fees and expenses (including reasonable fees and expenses of legal counsel) paid in connection with, any Qualified Securitization Financing or Receivables Facility.

“*Securitization Repurchase Obligation*” means any obligation of a seller of Securitization Assets or Receivables Assets in a Qualified Securitization Financing or a Receivables Facility to repurchase or otherwise make payments with respect to Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, offset or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

“*Securitization Subsidiary*” means any Subsidiary of the Issuer in each case formed for the purpose of and that solely engages in one or more Qualified Securitization Financings and other activities reasonably related thereto or another Person formed for this purpose.

“*Senior Facilities*” means the Senior Term Loans and the Revolving Credit Facility.

“*Senior Facilities Agreement*” means the senior facilities agreement entered into on August 17, 2017, by and among the Issuer, the other borrowers party thereto, the guarantors from time to time party thereto, Barclays Bank PLC, as agent and U.S. Bank Trustees Limited as security agent, and each lender from time to time party thereto, together with the related documents thereto (including the revolving loans thereunder, any letters of credit and reimbursement obligations related thereto, any Guarantees and security documents), as amended, extended, renewed, restated, refunded, replaced, refinanced, supplemented, modified or otherwise changed (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time.

“*Senior Notes*” means the 2017 Senior Notes (and any additional Senior Notes issued thereafter (including the 2018 Senior Notes)).

“*Senior Notes Guarantee*” means the joint and several guarantee of the obligations under the Senior Notes and the Senior Notes Indenture on a senior subordinated basis by the Issuer and each Guarantor.

“*Senior Secured Bridge Facility*” means the €485.0 million senior secured bridge facility made available under a bridge facility agreement dated as of August 17, 2017, among, *inter alios*, the Issuer and the lenders as defined therein. The Senior Secured Bridge Facility was repaid on September 29, 2017.

“*Senior Secured Indebtedness*” means Indebtedness of the type referred to in the definition of “Consolidated Total Indebtedness” that (a) is secured by a first-priority Lien on the Collateral and not contractually subordinated to obligations under the Senior Secured Notes or the Senior Secured Notes Guarantees as of such date or (b) is Senior Secured Target Indebtedness, and that, in each case, (x) is Incurred under the first paragraph described under “*Certain Covenants—Limitation on Indebtedness*” or clauses (1)(a), (1)(b), (1)(c), (4), (5), (7), (10), (11), (13) or (19) of the second paragraph of the covenant described under “*Certain Covenants—Limitation on Indebtedness*,” (y) is a Guarantee of any Indebtedness set forth in clause (x) that has been Incurred by the Issuer or a Restricted Subsidiary where such Guarantee is not contractually subordinated to the obligations under the Senior Secured Notes or the Senior Secured Notes Guarantees, or (z) is Refinancing Indebtedness in respect thereof, in all cases without double-counting.



*“Senior Secured Notes Documents”* means the Senior Secured Notes (including Additional Senior Secured Notes), the Senior Secured Notes Indenture (including the Senior Secured Notes Guarantees), the Senior Secured Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreements.

*“Senior Secured Security Documents”* means all security agreements, pledge agreements, collateral assignments, and any other instrument and document executed and delivered pursuant to the Senior Secured Notes Indenture or otherwise or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time, creating the Security Interests in the Collateral as contemplated by the Senior Secured Notes Indenture.

*“Senior Secured Target Indebtedness”* means Indebtedness Incurred by the Target pursuant to:

- (1) the €350.0 million 2.25% fixed rate notes of the Target due June 5, 2018;
- (2) the €300.0 million 1.75% fixed rate notes of the Target due April 8, 2022;
- (3) the fixed and floating rate Schuldschein issued by the Target prior to the Original Issue Date in an aggregate principal amount of €665.0 million;
- (4) the fixed rate loan entered into between the Target as borrower and Erste Group Bank AG as lender in an aggregate principal amount of €25.0 million due November 30, 2018; and
- (5) the floating rate loan entered into between the Target as borrower and KfW IPEX-Bank GmbH as lender in an aggregate principal amount of €40.0 million due October 10, 2017.

*“Senior Term Loan”* means a loan under a term loan facility made under the Senior Facilities Agreement or the principal amount outstanding of such loan.

*“Senior Term Loan Escrow Account”* means any bank account held by the Issuer or the Target into which the proceeds of any Senior Term Loan are deposited for the purposes permitted under the Senior Facilities Agreement, which is designated as an “Acquisition Escrow Account” or a “Refinancing Escrow Account,” as the case may be, by the Issuer, as the same may be re-designated, substituted or replaced from time to time.

*“Senior Term Loan Facility B”* means Facility B1 (EUR) and Facility B2 (GBP) under the Senior Facilities Agreement or the principal amount outstanding of such facility or facilities and any indebtedness refinancing Facility B1 (EUR) or Facility B2 (GBP).

*“Senior Unsecured Bridge Facility”* means the €340.0 million senior unsecured bridge facility made available under a bridge facility agreement dated as of August 17, 2017, among, *inter alios*, the Company and the lenders as defined therein. The Senior Unsecured Bridge Facility was repaid on September 29, 2017.

*“Settlement”* means the transfer of cash or other property with respect to any credit or debit card charge, check or other instrument, electronic funds transfer, or other type of paper-based or electronic payment, transfer, or charge transaction for which a Person acts as a processor, remitter, funds recipient or funds transmitter in the ordinary course of its business.

*“Settlement Asset”* means any cash, receivable or other property, including a Settlement Receivable, due or conveyed to a Person in consideration for a Settlement made or arranged, or to be made or arranged, by such Person or an Affiliate of such Person.

*“Settlement Indebtedness”* means any payment or reimbursement obligation in respect of a Settlement Payment.

*“Settlement Lien”* means any Lien relating to any Settlement or Settlement Indebtedness (and may include, for the avoidance of doubt, the grant of a Lien in or other assignment of a Settlement Asset in consideration of a Settlement Payment, Liens securing intraday and overnight overdraft and automated clearing house exposure, and similar Liens).

*“Settlement Payment”* means the transfer, or contractual undertaking (including by automated clearing house transaction) to effect a transfer, of cash or other property to effect a Settlement.

*“Settlement Receivable”* means any general intangible, payment intangible, or instrument representing or reflecting an obligation to make payments to or for the benefit of a Person in consideration for a Settlement made or arranged, or to be made or arranged, by such Person.

*“Shareholder Contribution”* means shareholder funding in connection with an Acquisition (whether on or about the Completion Date or thereafter) to be provided by the Initial Investors to the Issuer through

wholly owned or majority-owned intermediate holding companies by way of an equity contribution and subordinated shareholder debt; *provided* that the aggregate amount of such shareholder funding counted as a Shareholder Contribution shall not exceed as of any date of determination the minimum amount of shareholder funding required on the Completion Date under the Senior Facilities Agreement plus the minimum amount of shareholder funding required pursuant to the Senior Facilities Agreement after the Completion Date in connection with any Post-Closing Equity Contribution (as defined in the Senior Facilities Agreement from time to time) required under the Senior Facilities Agreement (if any).

“*Significant Subsidiary*” means any Restricted Subsidiary that would be a “significant subsidiary” as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such regulation is in effect on the Original Issue Date.

“*Similar Business*” means (a) any businesses, services or activities engaged in by the Issuer or any of its Subsidiaries or any Associates on the Original Issue Date and (b) any businesses, services and activities engaged in by the Issuer or any of its Subsidiaries or any Associates that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

“*Squeeze-Out*” means the squeeze-out procedure to acquire the Target Shares held by minority shareholders of the Target pursuant to either Section 327a *et seqq.* German Stock Corporation Act (*Aktiengesetz—AktG*), Section 39a of the German Takeover Code or Section 62 paragraph 5 German Reorganization Act (*Umwandlungsgesetz—UmwG*).

“*Standard Securitization Undertakings*” means representations, warranties, covenants, guarantees and indemnities entered into by the Issuer or any Subsidiary of the Issuer which the Issuer has determined in good faith to be customary in a Securitization Facility, including those relating to the servicing of the assets of a Securitization Subsidiary, it being understood that any Securitization Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking or, in the case of a Receivables Facility, a non-credit related recourse accounts receivable factoring arrangement.

“*Stated Maturity*” means, with respect to any Indebtedness, the date specified in the instrument governing such Indebtedness as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any Contingent Obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

“*Subordinated Indebtedness*” means, with respect to any Person, any Indebtedness (whether outstanding on the Original Issue Date or thereafter Incurred) which is expressly subordinated in right of payment to the Senior Secured Notes or the Senior Secured Notes Guarantees pursuant to a written agreement.

“*Subordinated Shareholder Funding*” means, collectively, any funds provided to the Issuer by any Parent Entity, any Affiliate of any Parent Entity or any Permitted Holder or any Affiliate thereof, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by any of the foregoing Persons, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Funding; *provided, however*, that such Subordinated Shareholder Funding:

- (1) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the date that is six months after the Stated Maturity of the Senior Secured Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Issuer or any funding meeting the requirements of this definition) or the making of any such payment prior to the date that is six months after the Stated Maturity of the Senior Secured Notes is restricted by the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement;
- (2) does not require, prior to the date that is six months after the Stated Maturity of the Senior Secured Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts or the making of any such payment prior to the date that is six months after the Stated Maturity of the Senior Secured Notes is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;
- (3) contains no change of control, asset sale or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the date that is six months after the Stated Maturity of the Senior Secured Notes or the payment of any amount as a result of any such action or provision or the exercise

of any rights or enforcement action, in each case, prior to the date that is six months after the Stated Maturity of the Senior Secured Notes is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;

- (4) does not provide for or require any security interest or encumbrance over any asset of the Issuer or any of its Subsidiaries;
- (5) pursuant to its terms or to the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement, is fully subordinated and junior in right of payment to the Senior Secured Notes and any Senior Secured Notes Guarantee pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding or are no less favorable in any material respect to Holders than those contained in the Intercreditor Agreement as in effect on the Original Issue Date with respect to the “Subordinated Liabilities” (as defined therein);
- (6) is not Guaranteed by any Subsidiary of the Issuer;
- (7) contains restrictions on transfer to a Person who is not a Parent Entity, any Affiliate of any Parent Entity, any holder of Capital Stock of a Parent Entity or any Affiliate of a Parent Entity or any Permitted Holder or any Affiliate thereof; *provided* that any transfer of Subordinated Shareholder Funding to any of the foregoing persons shall not be deemed to be materially adverse to the interests of the Holders; and
- (8) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Senior Secured Notes or any Senior Secured Notes Guarantee or compliance by the Issuer or any Guarantor with its obligations under the Senior Secured Notes, any Senior Secured Notes Guarantee or the Senior Secured Notes Indenture.

“*Subsidiary*” means, with respect to any Person:

- (1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or
- (2) any partnership, joint venture, limited liability company or similar entity of which:
  - (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and
  - (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

“*Target*” means STADA Arzneimittel Aktiengesellschaft, a stock corporation (*Aktiengesellschaft*) incorporated under the laws of the Federal Republic of Germany and registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Frankfurt am Main, Germany, under HRB 71290.

“*Target Group*” means the Target and its Subsidiaries.

“*Target Shares*” means the stock representing the issued capital of the Target listed on the Frankfurt Stock Exchange, but excluding any treasury shares.

“*Target Warrants*” means any warrant, option or other similar instrument entitling the holder thereof to purchase Target Shares.

“*Taxes*” means all present and future taxes, levies, imposts, deductions, charges, duties and withholdings and any charges of a similar nature (including interest, penalties and other liabilities with respect thereto) that are imposed by any government or other taxing authority.

“*Temporary Cash Investments*” means any of the following:

- (1) any Investment in:
  - (a) direct obligations of, or obligations Guaranteed by, (i) the United States of America or Canada, (ii) any European Union member state, (iii) the United Kingdom, (iv) Japan, Australia, Switzerland or Norway, (v) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by the Issuer or a Restricted Subsidiary in that country with such funds or (vi) any agency or instrumentality of any such country or member state; or
  - (b) direct obligations of any country recognized by the United States of America rated at least “A” by S&P or “A-1” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);
- (2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers’ acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:
  - (a) any lender under the Senior Facilities; or
  - (b) any institution authorized to operate as a bank in any of the countries or member states referred to in subclause (1)(a) above; or (c) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof, in each case, having capital and surplus aggregating in excess of €250.0 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least “A” by S&P or “A-2” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;
- (4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than the Issuer or any of the Restricted Subsidiaries), with a rating at the time as of which any Investment therein is made of “P-2” (or higher) according to Moody’s or “A-2” (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);
- (5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, Canada, any European Union member state, the United Kingdom or Japan, Australia, Switzerland, Norway or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least “BBB–” by S&P or “Baa3” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);
- (6) bills of exchange issued in the United States, Canada, a member state of the European Union, the United Kingdom, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);
- (7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of €250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least “A” by S&P or “A2” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;
- (8) Investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment or distribution); and

- (9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended.

*“Total Assets”* means, as of any date, the total consolidated assets of the Issuer and the Restricted Subsidiaries on a consolidated basis, as shown on the most recent consolidated balance sheet of the Issuer and the Restricted Subsidiaries prepared in accordance with IFRS, determined on a pro forma basis in a manner consistent with the pro forma basis contained in the definition of Fixed Charge Coverage Ratio (excluding, for the avoidance of doubt, the further proviso to the first paragraph of such definition).

*“Transaction Expenses”* means any fees or expenses Incurred or paid by the Issuer or any Restricted Subsidiary in connection with the Transactions, including any fees, costs and expenses associated with settling any claims or action arising from a dissenting stockholder exercising its appraisal rights.

*“Transactions”* shall have the meaning assigned to such term in the Offering Memorandum.

*“Trust Indenture Act”* means the Trust Indenture Act of 1939, as amended.

*“UCC”* means the Uniform Commercial Code as in effect from time to time in the State of New York; *provided, however*, that at any time, if by reason of mandatory provisions of law, any or all of the perfection or priority of a collateral agent’s security interest in any item or portion of the Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term *“UCC”* shall mean the Uniform Commercial Code as in effect, at such time, in such other jurisdiction for purposes of the provisions hereof relating to such perfection or priority and for purposes of definitions relating to such provisions.

*“Unrestricted Subsidiary”* means:

- (1) any Subsidiary of the Issuer that at the time of determination is an Unrestricted Subsidiary (as designated by the Issuer in the manner provided below); and
- (2) any Subsidiary of an Unrestricted Subsidiary.

The Issuer may designate any Subsidiary of the Issuer (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein) to be an Unrestricted Subsidiary only if:

- (1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock of the Issuer or any other Subsidiary of the Issuer which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and
- (2) such designation and the Investment, if any, of the Issuer in such Subsidiary complies with *“Certain Covenants—Limitation on Restricted Payments.”*

*“U.S. Bankruptcy Code”* means Title 11 of the United States Code, as amended.

*“Voting Stock”* of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

*“Weighted Average Life to Maturity”* means, when applied to any Indebtedness, Disqualified Stock or Preferred Stock, as the case may be, at any date, the quotient obtained by dividing:

- (1) the sum of the products of the number of years from the date of determination to the date of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Disqualified Stock or Preferred Stock multiplied by the amount of such payment; by
- (2) the sum of all such payments.

*“Wholly Owned Subsidiary”* means a Restricted Subsidiary, all of the Capital Stock of which (other than directors’ qualifying shares or shares required by any applicable law or regulation to be held by a Person other than the Issuer or another Wholly Owned Subsidiary) is owned by the Issuer or another Wholly Owned Subsidiary.



## BOOK-ENTRY, DELIVERY AND FORM

### General

The Walmark Tap Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A will initially be represented by one or more global notes in registered form without interest coupons attached (the “144A Global Walmark Tap Notes”). The Walmark Tap Notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the “Regulation S Global Walmark Tap Notes” and, together with the “144A Global Walmark Tap Notes,” the “Global Walmark Tap Notes”). The Global Walmark Tap Notes will be deposited, on the New Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

The Takeda Temporary Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A will initially be represented by one or more global notes in registered form without interest coupons attached (the “144A Global Temporary Notes”). The Takeda Temporary Notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the “Regulation S Global Temporary Notes” and, together with the “144A Global Temporary Notes,” the “Global Temporary Notes”). The Global Temporary Notes will be deposited, on the New Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

The Takeda Tap Notes issued in exchange for the Rule 144A Global Temporary Notes on the Takeda Temporary Notes Exchange Date will initially be represented by one or more global notes in registered form without interest coupons attached (the “144A Global Takeda Tap Notes” and, together with the 144A Global Walmark Tap Notes, the “144A Global Notes”). The Takeda Tap Notes issued in exchange for the Regulation S Global Temporary Notes will initially be represented by one or more global notes in registered form without interest coupons attached (the “Regulation S Global Takeda Tap Notes” and, together with the “144A Global Takeda Tap Notes,” the “Global Takeda Tap Notes”; the Regulation S Global Takeda Tap Notes together with the Regulation S Global Walmark Tap Notes, the “Regulation S Global Notes”; and the 144A Global Notes together with the Regulation S Global Notes, the “Global Notes”). The Global Takeda Tap Notes will be deposited, on the Takeda Temporary Notes Exchange Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream.

Ownership of interests in the 144A Global Temporary Notes and the 144A Global Notes (the “144A Book-entry Interests”) and ownership of interests in the Regulation S Global Temporary Notes and the Regulation S Global Notes (the “Regulation S Book-entry Interest” and, together with the 144A Book-entry Interests, the “Book-entry Interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by, Euroclear and Clearstream and their participants. The Book-entry Interests in the Global Temporary Notes and the Global Notes will be issued only in denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

The Book-entry Interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-entry Interests. In addition, while the Additional Notes are in global form, owners of interests in the Global Temporary Notes and the Global Notes will not have the Additional Notes registered in their names, will not receive physical delivery of the Additional Notes in certificated form and will not be considered the registered owners or “holder” of Additional Notes under the Indenture for any purpose.

So long as the Takeda Temporary Notes and the Tap Notes are held in global form, the common depository Euroclear and/or Clearstream (or its respective nominee), will be considered the holder of the Global Temporary Notes and the Global Notes for all purposes under the Takeda Temporary Indenture and the Senior Secured Notes Indenture, respectively. As such, participants must rely on the procedures of Euroclear and/or Clearstream and indirect participants must rely on the procedures of Euroclear and/or

Clearstream and the participants through which they own Book-entry Interests in order to exercise any rights of holders under the Takeda Temporary Indenture and the Senior Secured Notes Indenture, respectively.

None of the Senior Secured Notes Issuer, the Trustee, Paying Agent, Transfer Agent or Registrar nor any of the Senior Secured Notes Issuer's agents will have any responsibility or be liable for any aspect of the records relating to the Book-entry Interests.

### **Issuance of Definitive Registered Notes**

Under the terms of the Takeda Temporary Indenture and the Senior Secured Notes Indenture, owners of Book-entry Interests will receive definitive registered Takeda Temporary Notes and Tap Notes, respectively, in certificated form (the "Definitive Registered Notes"):

- if Euroclear or Clearstream notifies the Senior Secured Notes Issuer that it is unwilling or unable to continue to act as depository and a successor depository is not appointed by the Senior Secured Notes Issuer within 120 days; or
- if the owner of a Book-entry interest requests such exchange in writing delivered through Euroclear or Clearstream following an event of default under the Takeda Temporary Indenture or the Senior Secured Notes Indenture and enforcement action is being taken in respect thereof under the Takeda Temporary Indenture or the Senior Secured Notes Indenture.

In such an event, the Senior Secured Notes Issuer will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear and/or Clearstream (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in "*Transfer Restrictions*," unless that legend is not required by the Takeda Temporary Indenture, the Senior Secured Notes Indenture or applicable law.

### **Redemption of Global Temporary Notes or Global Notes**

In the event any Global Temporary Note or Global Note, or any portion thereof, is redeemed, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Temporary Note or Global Note so redeemed to the holders of the Book-entry Interests in such Global Temporary Note or Global Note from the amount received by it in respect of the redemption of such Global Temporary Note or Global Note. The redemption price payable in connection with the redemption of such Book-entry Interests will be equal to the amount received by Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Temporary Note or Global Note (or any portion thereof). The Senior Secured Notes Issuer understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Additional Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no Book-entry Interest of less than €100,000 principal amount at maturity may be redeemed in part.

### **Payments on Global Temporary Notes or Global Notes**

The Senior Secured Notes Issuer will make payments of any amounts owing in respect of the Global Temporary Notes and the Global Notes (including principal, premium, interest, additional interest and additional amounts) to the Paying Agent. In turn, each Paying Agent will make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the Takeda Temporary Indenture and the Senior Secured Notes Indenture governing the Takeda Temporary Notes and the Tap Notes, respectively, the Senior Secured Notes Issuer, the Trustee, Paying Agent, Transfer Agent, and Registrar will treat the registered holder of the Global Temporary Notes and the Global Notes, as applicable (i.e., the common depository for Euroclear or Clearstream (or its nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Senior Secured Notes Issuer, the Trustee, Paying Agent, Transfer Agent, and Registrar or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-entry Interest, for any such for any such payments made

by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-entry Interest; or

- payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in “street name.”

### **Currency and Payment for the Global Temporary Notes and Global Notes**

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Temporary Notes and the Global Notes, will be paid to holders of interest in the Takeda Temporary Notes and the Tap Notes, as applicable, through Euroclear and/or Clearstream in euro.

### **Action by Owners of Book-entry Interests**

Euroclear and Clearstream have advised the Senior Secured Notes Issuer that they will take any action permitted to be taken by a holder of Additional Notes only at the direction of one or more participants to whose account the Book-entry Interests in the Global Temporary Notes and the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Additional Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Temporary Notes and the Global Notes. However, if there is an event of default under the Takeda Temporary Notes or the Tap Notes, each of Euroclear and Clearstream reserves the right to exchange the Global Temporary Notes and the Global Notes, as applicable, for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

### **Transfers**

The Global Temporary Notes and the Global Notes will bear a legend to the effect set forth in “*Transfer Restrictions*.” Book-entry Interests in the Global Temporary Notes and the Global Notes will be subject to the restrictions on transfer discussed in “*Transfer Restrictions*.”

Through and including the 40th day after the later of the commencement of the Offering of the Walmark Tap Notes and the closing of the Offering of the Walmark Tap Notes (the “40 day period”), beneficial interests in a Regulation S Global Walmark Tap Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Walmark Tap Note denominated in the same currency only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Trustee a certificate (in the form provided in the Senior Secured Notes Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under “*Transfer Restrictions*” and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

After the expiration of the 40 day period, beneficial interests in a Regulation S Global Walmark Tap Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Walmark Tap Note without compliance with these certification requirements.

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest denominated in the same currency only upon receipt by the Trustee of a written certification (in the form provided in the Takeda Temporary Indenture and the Senior Secured Notes Indenture, as applicable) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act (if available).

Subject to the foregoing, and as set forth in “*Transfer Restrictions*,” Book-entry Interests may be transferred and exchanged as described under “*Description of the Senior Secured Notes—Transfer and Exchange*.” Any Book-entry Interest in one of the Global Temporary Notes and the Global Notes that is transferred to a person who takes delivery in the form of a Book-entry Interest in the other Global Temporary Note or

Global Note, as applicable, will, upon transfer, cease to be a Book-entry Interest in the first mentioned Global Temporary Note and Global Note, respectively, and become a Book-entry Interest in the other Global Temporary Note and Global Note, respectively, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-entry Interests in such other Global Temporary Note and Global Note, respectively, for as long as it retains such a Book-entry Interest.

Definitive Registered Notes may be transferred and exchanged for Book-entry Interests in a Global Temporary Note and a Global Note only as described under “*Description of the Temporary Notes*” and “*Description of the Senior Secured Notes—Transfer and Exchange*” and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Takeda Temporary Indenture and the Senior Secured Notes Indenture, as applicable) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Takeda Temporary Notes and Tap Notes. See “*Transfer Restrictions*.”

### **Information Concerning Euroclear and Clearstream**

All Book-entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Senior Secured Notes Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of the Senior Secured Notes Issuer, the Trustee, the Paying Agent, the Transfer Agent, the Registrar or the Initial Purchasers is responsible for those operations or procedures.

Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Temporary Notes and the 144A Global Notes only through Euroclear or Clearstream participants.

### **Global Clearance and Settlement Under the Book-entry System**

The Takeda Temporary Notes and the Tap Notes represented by the Global Temporary Notes and the Global Notes, respectively, are expected to be listed on the Official List of Exchange. The Senior Secured Notes Issuer expects that secondary trading in any certificated Additional Notes will also be settled in immediately available funds.

### **Initial Settlement**

Initial settlement for the Additional Notes will be made in euro. Book-entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Book-entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

### **Secondary Market Trading**

The Book-entry Interests will trade through participants of Euroclear or Clearstream and will settle in same day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-entry Interests where both the purchaser’s and the seller’s accounts are located to ensure that settlement can be made on the desired value date.



## CERTAIN TAX CONSEQUENCES

### German Taxation

The following is a general discussion of certain German tax consequences of the acquisition, holding and disposal of the Additional Notes. It does not purport to be a comprehensive description of all German tax considerations that may be relevant to a decision to purchase Notes and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the tax laws of Germany currently in force and as applied on the date of this offering memorandum, which are subject to change, possibly with retroactive or retrospective effect.

Prospective purchasers of the Additional Notes are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Additional Notes, including the effect of any state or local or church taxes under the tax laws of Germany and any country of which they are residents or whose tax laws apply to them for other reasons.

### Withholding Tax

Ongoing interest payments received by an individual holder of the Additional Notes who is a German tax resident (i.e. persons whose residence, habitual abode, statutory seat or place of effective management is located in Germany) will be subject to German withholding tax (*Kapitalertragsteuer*) if the Additional Notes are kept or administered in a custodial account with or presented for an over the counter payment to a German branch of a German or non-German bank or financial services institution, securities trading company or securities trading bank (each, a “Disbursing Agent,” *auszahlende Stelle*). The withholding tax rate to be withheld by the Disbursing Agent is 25% (plus solidarity surcharge at a rate of 5.5% thereon, the total withholding being 26.375%, plus church tax, if applicable). Church tax will be collected by the Disbursing Agent by way of withholding unless the holder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*) in which case the holders will have to include the income in the tax return and will then be assessed for church tax. The Senior Notes Issuer of the Additional Notes should under German law not be required to deduct withholding tax from the proceeds of the investment in the Additional Notes.

The same treatment applies to capital gains (i.e., the difference between the proceeds from the disposal, redemption, repayment or assignment after deduction of expenses directly related to the disposal, redemption, repayment or assignment and the cost of acquisition taking into account currency gains and losses, if any) and interest accrued on the Additional Notes (“Accrued Interest,” *Stückzinsen*) derived by an individual holder who is a German tax resident irrespective of any holding period provided that the Additional Notes have been held in a custodial account with the same Disbursing Agent since the time of their acquisition. If interest coupons or interest claims are disposed of separately (i.e., without the Additional Notes), the proceeds from the disposition are subject to withholding tax. The same applies to proceeds from the redemption of interest coupons or the payment of interest claims if the Additional Notes have been disposed of separately.

To the extent that the Additional Notes have not been kept or administered in a custodial account with the same Disbursing Agent since the time of their acquisition, upon their disposal, redemption, repayment or assignment withholding tax applies at a rate of 25% (plus solidarity surcharge at a rate of 5.5% thereon, the total withholding being 26.375%, plus church tax, if applicable) on 30% of the disposal proceeds (plus Accrued Interest, if any), unless the current Disbursing Agent has been provided with evidence of the actual acquisition costs of the Additional Notes by the previous Disbursing Agent or by a statement of a bank or financial services institution within the European Union, the European Economic Area or the countries/territories Luxembourg, Austria, the Swiss Confederation, the Principality of Liechtenstein, the Republic of San Marino, the Principality of Monaco, the Principality of Andorra, Curacao and Sint Maarten. If the withholding tax on a disposal, redemption, repayment or assignment of the Additional Notes has been calculated on the basis of 30% of the disposal proceeds (rather than from the actual gain), a German tax resident individual holder may also apply for an assessment on the basis of its actual acquisition costs; however, in case the actual gain is higher than 30% of the disposal proceeds a German tax resident individual holder is obliged to apply for an assessment on the basis of its actual acquisition costs.

In computing any German withholding tax, the Disbursing Agent may generally deduct from the basis of the withholding tax negative investment income realized by the individual holder of the Additional Notes via the Disbursing Agent (e.g., losses from the sale of other securities with the exception of shares).



The Disbursing Agent may also deduct Accrued Interest on the Additional Notes or other securities paid separately upon the acquisition of the respective security via the Disbursing Agent. In addition, subject to certain requirements and restrictions, the Disbursing Agent may credit foreign withholding taxes levied on investment income in a given year regarding securities held by the individual holder in the custodial account with the Disbursing Agent.

Upon the individual holder filing an exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent, the Disbursing Agent will take a maximum annual allowance (*Sparer Pauschbetrag*) of €801 (€1,602 for married couples and for partners in accordance with the registered partnership law (*Gesetz über die Eingetragene Lebenspartnerschaft*) filing jointly) into account when computing the amount of tax to be withheld from the gross payment to be made by the Disbursing Agent. No withholding tax will be deducted if the holder of the Additional Notes has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the competent tax authorities.

German withholding tax will generally not apply to gains from the disposal, redemption, repayment or assignment of Notes held by a corporate holder who is a German tax resident (including via a commercial partnership, as the case may be, and provided that in the case of corporations of certain legal forms the status of corporation has been evidenced by a certificate of the competent tax authorities) while ongoing payments, such as interest payments, are subject to withholding tax (irrespective of any deductions of foreign tax and losses incurred). The same may apply where the Additional Notes form part of a trade or business (of an individual or of a commercial partnership) subject to further requirements being met.

Non-residents of Germany are, in general, not subject to German withholding tax on investment income and the solidarity surcharge thereon. However, where the interest or capital gain is subject to German taxation (as outlined below under “—Taxation of Current Income and Capital Gains—Non-Tax Residents”) and the Additional Notes are held in a custodial account with a German Disbursing Agent, withholding tax will be levied under certain circumstances. The withholding tax may be refunded based on an assessment to tax or under an applicable tax treaty (*Doppelbesteuerungsabkommen*).

## **Taxation of Current Income and Capital Gains**

### ***Tax Residents***

This subsection “—Tax Residents” refers to persons who are tax residents of Germany (i.e., persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

Income derived from capital investments under the Additional Notes held by an individual holder who is tax resident in Germany is in general subject to German income tax at a flat tax rate of 25% (plus solidarity surcharge and church tax, if applicable, thereon) (*Abgeltungsteuer*) if the Additional Notes are held as private investment (*Privatvermögen*). Individual holders who are tax resident in Germany are entitled to a maximum annual allowance (*Sparer Pauschbetrag*) of €801 (€1,602 for married couples and for partners in accordance with the registered partnership law (*Gesetz über die Eingetragene Lebenspartnerschaft*) filing jointly), whereby actually incurred higher expenses directly attributable to a capital investment are not deductible.

The personal income tax liability of an individual holder who is tax resident in Germany on income from capital investments under the Additional Notes will, in principle, be satisfied by the tax withheld (as described under “—Withholding Tax” above). To the extent that withholding tax has not been levied, such as in the case of Notes kept in custody abroad or of no Disbursing Agent being involved in the payment process or if the withholding tax on disposal, redemption, repayment or assignment has been calculated from 30% of the disposal proceeds (rather than the actual gain), the individual holder must include its interest income and capital gains derived from the Additional Notes in its annual tax return and will then also be taxed at a rate of 25% (plus solidarity surcharge and, where applicable, church tax thereon). Further, an individual holder may apply for a taxation of all investment income of a given year at its lower individual tax rate based upon an assessment to tax with any amounts over withheld being refunded. In each case, the deduction of expenses (other than transaction costs) on an itemized basis is not permitted. Losses incurred with respect to the Additional Notes may only be offset with investment income of the individual holder realized in the same or following assessment periods.

Pursuant to a tax decree issued by the German Federal Ministry of Finance dated January 18, 2016 (as last amended on May 10, 2019) a bad debt loss (*Forderungsausfall*) and a waiver of a receivable (*Forderungsverzicht*), to the extent that the waiver does not qualify as a hidden capital contribution, shall

not be treated as a disposal. Accordingly, losses suffered upon such bad debt loss or waiver are not tax deductible if the Additional Notes are held as private investment (*Privatvermögen*). The same rules should apply according to that tax decree, if the Additional Notes expire worthless so that losses may not be tax deductible at all. Losses suffered from a sale of Notes will only be recognized according to the view of the tax authorities if the proceeds received in the sale exceed the respective transaction costs. In a recent case the German Federal Tax Court (*Bundesfinanzhof*) did not follow this view holding that losses are deductible against other investment income if they are final, i.e., no further payment can be expected, for example, upon the conclusion of an insolvency procedure over the borrower's asset. However, in reaction to the aforementioned decision, the German legislator has issued a draft bill which provides for a non-tax deductibility of said bad debt losses (*Forderungsausfälle*) and waivers of a receivable (*Forderungsverzichte*).

Where Notes form part of a trade or business of an individual or corporate holder or the income from the Additional Notes qualifies as income from the letting and leasing of property, the withholding tax, if any, will not satisfy the personal or corporate income tax liability. Rather, the income is subject to individual or corporate income tax (plus solidarity surcharge and, where applicable, church tax). Where Notes form part of a trade or business, interest (including Accrued Interest) and capital gains must be taken into account as income. The respective holder must include income and related (business) expenses in the annual tax return and the balance will be taxed at the holder's applicable tax rate. Withholding tax levied, if any, will be credited as advance payment against the personal or corporate income tax liability of the holder or, to the extent exceeding this personal or corporate income tax liability, be refunded. Where Notes form part of a German trade or business the current income and gains from the disposal, redemption, repayment or assignment of the Additional Notes may also be subject to German trade tax (*Gewerbesteuer*). The trade tax liability depends on the municipal trade tax factor (*Gewerbesteuerhebesatz*). If the holder is an individual or an individual partner of a partnership, the trade tax may generally be completely or partly credited against the personal income tax pursuant to a lump sum tax credit method.

### ***Non-Tax Residents***

This subsection “—*Non-Tax Residents*” refers to persons who are not tax residents of Germany (i.e., persons whose residence, habitual abode, statutory seat, and place of effective management and control is not located in Germany).

Interest and capital gains (which include Accrued Interest and currency gains and losses, if any) from the disposal, redemption, repayment or assignment of the Additional Notes received by holders who are not tax resident in Germany are generally not subject to German taxation, unless (i) the Additional Notes form part of the business property of a permanent establishment, including a permanent representative, or a fixed base maintained in Germany by the holder or (ii) the income otherwise constitutes German source income (such as income from the letting and leasing of certain German situs property or income from capital investments directly or indirectly secured by German situs real estate or income from a hybrid instrument issued by a German tax resident issuer, unless the Additional Notes qualify as global certificates (*Sammelurkunden*) within the meaning of Section 9a of the German Custody Act (*Depotgesetz*) or as fungible notes representing the same issue (*Teilschuldverschreibungen*)). We expect the Additional Notes to qualify for this exception so long as they are held in global form. In cases (i) and (ii) a tax regime similar to that explained above under “—*Tax Residents*” applies. Furthermore, the holders who are not tax resident in Germany may become subject to German withholding tax in case they receive the proceeds by way of an over the counter payment by a German Disbursing Agent and the Additional Notes are not held in custody with the same German Disbursing Agent. Subject to certain requirements a holder who is not tax resident in Germany may benefit from tax reductions or tax exemptions provided by an applicable tax treaty.

### ***Inheritance and Gift Tax***

A gratuitous transfer of Notes by reason of death or as a gift will be subject to German inheritance or gift tax if the decedent or donor or the heir, donee or other beneficiary is at the time of the transfer a resident or deemed to be a resident of Germany. If neither the holder nor the recipient is a resident or deemed to be a resident of Germany at the time of the transfer, no German inheritance or gift taxes will be levied unless (i) the Additional Notes are attributable to a German trade or business for which a permanent establishment is maintained or a permanent representative has been appointed in Germany or (ii) the obligations under the Additional Notes are directly or indirectly secured by German situs real estate (unless the Additional Notes qualify as fungible notes representing the same issue (*Teilschuldverschreibungen*)). We expect the Additional Notes to qualify for this exception so long as they are

held in global form.). Exceptions from this rule apply to certain German citizens who previously maintained a residence in Germany.

### **Other Taxes**

No stamp, issue or registration taxes or such duties will be payable in Germany in connection with the issuance, delivery or execution of the Additional Notes. Currently, net assets tax (*Vermögenssteuer*) is not levied in Germany.

### **The Proposed Financial Transactions Tax**

The EU Commission and certain EU member states (including Germany) are currently intending to introduce a financial transaction tax (presumably on secondary market transactions involving at least one financial intermediary). The timing of its potential introduction is, however, still unclear. Prospective holders of the Additional Notes are advised to seek their own professional advice in relation to the financial transaction tax.

### **Proposed Abolishment of German WHT on Interest Income**

The German Government intends to abolish the current flat taxation (*Abgeltungsteuer*) of 25% (plus solidarity surcharge at a rate of 5.5% thereon, the total withholding being 26.375%, plus church tax, if applicable) on interest income received by private individuals. As a result, interest on the Additional Notes could become subject to a taxation at a respective Additional Note holder's individual personal tax rate (where such noteholder is a tax resident of Germany) up to a tax rate of 45% (plus solidarity surcharge at a rate of 5.5% thereon, the total withholding being 26.375%, plus church tax, if applicable).

### **Payment by a Guarantor**

If a Guarantor makes any payments in respect of interest on Notes it is possible that such payments may be subject to withholding tax at applicable rates subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. It is not certain that such payments by the Guarantor will be eligible for exemption from withholding tax.

### **Netherlands Taxation**

The information set out below is a general summary of certain material Dutch tax consequences in connection with the acquisition, ownership and transfer of the Tap Notes. This summary is not a comprehensive or complete description of all the Dutch tax considerations that may be relevant for a particular holder of Tap Notes and it does not address the tax consequences that may arise in any jurisdiction other than The Netherlands in connection with the acquisition, ownership and transfer of the Tap Notes. For Dutch tax purposes, a holder of Tap Notes may include an individual who or an entity that does not have the legal title to the Tap Notes, but to whom nevertheless the Tap Notes, or the income thereof, are attributed based either on such individual or entity holding a beneficial interest in the Tap Notes or based on specific statutory provisions.

This summary is based on the tax laws of The Netherlands as in effect on the date of this offering memorandum, and as applied and interpreted in case law of the courts of The Netherlands and in administrative guidance of the relevant authorities of The Netherlands, in each case as available in printed form on or before the date of this offering memorandum, without prejudice to any developments or amendments introduced at a later date and implemented with or without retroactive effect.

Any reference in this summary to The Netherlands and to Netherlands or Dutch tax law are to the European part of the Kingdom of The Netherlands and its law, respectively, only.

As this summary is intended as general information only, (prospective) holders of Tap Notes should consult their own tax advisors as to the Dutch or other tax consequences of the acquisition, ownership and transfer of Tap Notes, including, in particular, the application to their particular situations of the tax considerations discussed below. Holders of Tap Notes may be subject to a special tax treatment under any applicable law and this summary is not intended to be applicable in respect of all categories of holders of Tap Notes.

## ***Withholding Tax***

Any payments to be made by the Dutch Guarantor under the Tap Notes may be made free of withholding or deduction for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

## ***Pending Legislative Proposal***

On September 17, 2019 the Dutch Ministry of Finance published a legislative proposal introducing a conditional withholding tax as per January 2021 on interest payments (including guarantee payments) to an entity (*lichaam*) located in or acting via a low tax jurisdiction (*laagbelastende jurisdictie*) where such entity is considered related (*gelieerd*) to the debtor of the loan (*geldlening*) in respect of which the interest payment is made. The conditional withholding tax would also apply to interest payments to related entities not located in or acting via a low tax jurisdiction in case of an artificial structure or a situation that is considered abusive.

## ***Taxes on Income and Capital Gains***

This summary is not intended for any holder of Tap Notes:

- (i) for whom the income or capital gains derived from the Tap Notes are attributable to a membership of a management board or a supervisory board, an employment relationship, a deemed employment relationship or a management role, the income of which is taxable in The Netherlands;
- (ii) who has, or that has, a Substantial Interest or a deemed Substantial Interest (as defined and explained below) in the Dutch Guarantor;
- (iii) that is an entity that is resident or deemed to be resident in The Netherlands and that is, in whole or in part, not subject to or exempt from Dutch corporate income tax (such as qualifying pension funds);
- (iv) that is an exempt investment institution (*vrijgestelde beleggingsinstelling*) or a fiscal investment institution (*fiscale beleggingsinstelling*) as meant in Articles 6a and 28 of the Dutch Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*), respectively; or
- (v) who is, or that is, not considered the beneficial owner (*uiteindelijk gerechtigde*) of the Tap Notes and/or the income and/or capital gains derived from the Tap Notes.

Generally a holder of Tap Notes will have a substantial interest (*aanmerkelijk belang*) in the Dutch Guarantor if he holds, alone or, in case the holder is an individual, together with his partner (statutorily defined term in Dutch tax law), whether directly or indirectly, the ownership of, or certain other rights over, shares representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Dutch Guarantor, or rights to acquire shares, whether or not already issued, that represent at any time 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Dutch Guarantor, or the ownership of certain profit participating certificates that relate to 5% or more of the annual profit or to 5% or more of the liquidation proceeds of the Dutch Guarantor (a “Substantial Interest”).

A holder of Tap Notes will also have a Substantial Interest in the Dutch Guarantor if one of certain relatives of that holder or of his partner has a Substantial Interest in the Dutch Guarantor. If a holder of Tap Notes does not have a Substantial Interest, a deemed Substantial Interest will be present if (part of) a Substantial Interest has been disposed of, or is deemed to have been disposed of, without recognizing a taxable gain.

## ***Dutch Resident Individuals***

- (i) A holder of Tap Notes who is an individual and who is resident or deemed to be resident in The Netherlands for purposes of Dutch taxation (a “Dutch Resident Individual”), will generally be subject to Dutch income tax with respect to income and capital gains derived or deemed to be derived from the Tap Notes at the progressive rates up to 51.75% (maximum rate for 2019) if: the holder derives profits from an enterprise or deemed enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), to which enterprise the Tap Notes are attributable or deemed to be attributable; or
- (ii) the holder derives income or capital gains from the Tap Notes, as the case may be, that are taxable as benefits from ‘miscellaneous activities’ (*resultaat uit overige werkzaamheden*), as defined in the Dutch



Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), which include the performance of activities with respect to the Tap Notes, that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*) and also include benefits resulting from a lucrative interest (*lucratief belang*).

If neither condition (i) nor condition (ii) mentioned above applies, a Dutch Resident Individual will generally be subject to Dutch income tax on a deemed return, regardless of the actual income or capital gains derived from the Tap Notes. This deemed return is calculated by applying the applicable deemed return percentage(s) to the individual's yield basis (*rendementsgrondslag*), insofar this exceeds a certain threshold (*heffingvrij vermogen*). The individual's yield basis is determined as the fair market value of certain qualifying assets (including, as the case may be, the Tap Notes) held by the Dutch Resident Individual less the fair market value of certain qualifying liabilities, both determined on January 1 of the relevant year. The deemed return percentages to be applied to the yield basis increase progressively from 1.94% to 5.60% (rates for 2019), depending on such individual's yield basis. The deemed return percentages are adjusted annually. The deemed return will be taxed at a rate of 30% (rate for 2019).

#### *Dutch Resident Entities*

A holder of Tap Notes that is an entity (including an association, partnership and mutual fund, in each case to the extent taxable as a corporate entity) and that is resident or deemed to be resident in The Netherlands for purposes of Dutch taxation (a "Dutch Resident Entity"), will generally be subject to Dutch corporate income tax with respect to income and capital gains derived or deemed to be derived from the Tap Notes. The Dutch corporate income tax rate is 19% for the first €200,000 of taxable profits and 25% for the taxable amount exceeding €200,000 (rates for 2019).

#### *Non-Dutch Residents*

A holder of Tap Notes who is not, nor deemed to be, a Dutch Resident Individual or a Dutch Resident Entity (a "Non-Dutch Resident"), is generally not subject to Dutch income tax or Dutch corporate income tax with respect to income and capital gains derived from the Tap Notes, provided that:

- (i) such Non-Dutch Resident does not derive profits from an enterprise or deemed enterprise, whether as an entrepreneur or pursuant to a co entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder) which enterprise is, in whole or in part, carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Tap Notes are attributable or deemed attributable;
- (ii) in case of a Non-Dutch Resident who is an individual, such individual does not derive income or capital gains from the Tap Notes, as the case may be, that are taxable as benefits from 'miscellaneous activities' performed in The Netherlands, which include the performance of activities in respect of the Tap Notes, that exceed regular, active portfolio management and also includes benefits resulting from a lucrative interest;
- (iii) in case of a Non-Dutch Resident who is an individual, such individual is not entitled to a share in the profits of an enterprise effectively managed in The Netherlands, other than by way of the holding of securities or through an employment relationship, to which enterprise the Tap Notes or payments in respect of the Tap Notes are attributable; and
- (iv) in case of a Non-Dutch Resident that is an entity (including an association, partnership and mutual fund, in each case to the extent taxable as a corporate entity), such entity is neither entitled to a share in the profits of an enterprise nor co entitled to the net worth of an enterprise effectively managed in The Netherlands, other than by way of the holding of securities, to which enterprise the Tap Notes or payments in respect of the Tap Notes are attributable.

#### ***Gift and Inheritance Taxes***

##### *Dutch Residents*

Generally, gift taxes (*schenkbelasting*) and inheritance taxes (*erfbelasting*) may arise in The Netherlands with respect to a transfer of the Tap Notes by way of a gift by, or on the death of, a holder of Tap Notes who is resident or deemed to be resident in The Netherlands for the purpose of the Dutch Gift and Inheritance Tax Act 1956 (*Successiewet 1965*) at the time of the gift or his/her death.



### *Non-Dutch Residents*

No Dutch gift or inheritance taxes will be levied on the transfer of Tap Notes by way of gift by, or on the death of, a holder who is neither resident nor deemed to be resident in The Netherlands for the purpose of the relevant provisions, unless:

- (i) the transfer is construed as an inheritance or bequest or as a gift made by or on behalf of a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions;
- (ii) such holder dies while being resident or deemed resident in The Netherlands within 180 days after the date of a gift of the Tap Notes; or
- (iii) the gift is made under a condition precedent and such holder is or is deemed to be resident in The Netherlands at the time the condition is fulfilled.

For purposes of the Dutch Gift and Inheritance Tax Act 1956, an individual who is of the Dutch nationality will be deemed to be resident in The Netherlands if he/she has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his/her death.

For purposes of Dutch gift tax, an individual will, irrespective of his/her nationality, be deemed to be resident in The Netherlands if he/she has been resident in The Netherlands at any time during the twelve months preceding the date of the gift. The same twelve month rule may apply to entities that have transferred their seat of residence out of The Netherlands. Applicable tax treaties concluded by The Netherlands may override such deemed residency.

### *Value Added Tax*

No Dutch value added tax (*omzetbelasting*) is payable by a holder of Tap Notes in respect of payments of interest and principal under the Tap Notes or on a transfer of Tap Notes (other than value added tax due on fees payable in respect of additional services not exempt from Dutch value added tax).

### *Other Taxes and Duties*

No Dutch registration tax, stamp duty or any other similar tax or duty will be payable in The Netherlands by a holder of Tap Notes in respect of or in connection with the acquisition, ownership or transfer of the Tap Notes.

### *Residence*

A holder of Tap Notes will not become or be deemed to become a resident of The Netherlands for tax purposes solely by reason of the acquisition, ownership or transfer of the Tap Notes.

### **Certain U.S. Federal Income Tax Considerations**

The following discussion is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Additional Notes, but does not purport to be a complete analysis of all potential tax effects. The summary is limited to consequences relevant to a U.S. Holder (as defined below), except for the discussions below under “—*Foreign Account Tax Compliance*,” and does not address the effects of any U.S. federal tax laws other than U.S. federal income tax laws (such as estate and gift tax laws) or any state, local or non-U.S. tax laws.

This discussion is based upon the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change at any time, possibly with retroactive effect which could significantly affect the U.S. federal income tax consequences described below. No rulings from the U.S. Internal Revenue Service (“IRS”) have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS or a court will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Additional Notes than those discussed herein or that any such position would not be sustained in the event of litigation. A different treatment than that assumed below could adversely affect the amount, timing and character of income, gain or loss in respect of an investment in the Additional Notes.

This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a U.S. Holder in light of such U.S. Holder's particular circumstances, including the impact of the Medicare contribution tax on net investment income, special tax accounting rules that apply as a result of gross income with respect to the Additional Notes being taken into account on an applicable financial statement, or to holders subject to special rules, such as banks, certain financial institutions, U.S. expatriates, insurance companies, individual retirement and other tax deferred accounts, dealers in securities or currencies, traders in securities, U.S. Holders whose functional currency is not the U.S. dollar, tax-exempt entities, regulated investment companies, real estate investment trusts, partnerships, subchapter S corporations, or other pass through entities and investors in such entities, persons liable for alternative minimum tax, entities covered by the anti-inversion rules and persons holding the Additional Notes as part of a "straddle," "hedge," "conversion transaction" or other integrated transaction. In addition, this discussion is limited to persons who purchase the Additional Notes in the offering hereby at the offer price indicated on the cover page, and who hold the Additional Notes as capital assets (generally, property held for investment) within the meaning of section 1221 of the Code.

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of an Additional Note that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation or any entity taxable as a corporation for U.S. federal income tax purposes created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia, (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if the trust has a valid election in place to be treated as a U.S. person.

If any entity treated as a partnership for U.S. federal income tax purposes holds the Additional Notes, the U.S. tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partner and the partnership. A partnership considering an investment in the Additional Notes, and partners in such a partnership, should consult their tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the Additional Notes.

The summary of certain U.S. federal income tax considerations set forth below is for general information purposes only. Prospective purchasers of the Additional Notes should consult their tax advisors concerning the tax consequences of holding Additional Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of U.S. federal estate and gift tax laws and state, local, non-U.S. or other tax laws.

#### ***Fungibility for U.S. Federal Income Tax Purposes***

The Senior Secured Notes Issuer expects the Tap Notes will be treated as issued with less than a statutorily defined *de minimis* amount of discount and therefore intends to treat the Tap Notes offered hereby as fungible with the Existing Senior Secured Notes for U.S. federal income tax purposes.

#### ***Additional Payments***

In certain circumstances (see "*Description of the Senior Secured Notes—Change of Control*," "*Description of the Senior Secured Notes—Optional Redemption*," "*Description of the Senior Secured Notes—Redemption for Taxation Reasons*" and "*Description of the Senior Secured Notes—Withholding Taxes*") we may be obligated or elect to pay amounts in excess of stated interest or principal on the Additional Notes. In addition, in certain circumstances (see "*Description of the Temporary Notes—Escrow of Proceeds; Special Mandatory Redemption*"), we may be obligated to redeem the Takeda Temporary Notes in advance of the expected maturity date. If any such payment is treated as a contingent payment, or if we so redeem the Takeda Temporary Notes, subject to certain exceptions, the Additional Notes may be treated as foreign currency contingent payment debt instruments, in which case the timing and amount of income inclusions and the character of income recognized may be different from the consequences discussed herein. Although the issue is not free from doubt, we intend to take the position that the possibility of such additional amounts payable on the Additional Notes or such redemption of the Takeda Temporary Notes is a remote or incidental contingency within the meaning of applicable Treasury regulations as of the date hereof, and thus does not result in the Additional Notes being treated as contingent payment debt instruments under applicable Treasury regulations. Therefore, we do not intend to treat the potential payment of additional interest or the potential payment of a premium pursuant to the optional redemption, redemption for tax reasons or withholding tax provisions as part of the yield to maturity of the Additional Notes. Our

determination that this contingency is remote or incidental is binding on a U.S. Holder, unless such U.S. Holder explicitly discloses to the IRS on its tax return for the year during which it acquires the Additional Notes that it is taking a different position. However, our position is not binding on the IRS. If the IRS takes a contrary position to that described above, among other adverse tax consequences, a U.S. Holder may be required to accrue income on its Additional Notes in excess of stated interest, and to treat as ordinary income rather than capital gain any income recognized on the taxable disposition of an Additional Note, and to recognize foreign currency exchange gain or loss with respect to such income in a manner different than that described below. U.S. Holders should consult their tax advisor regarding the tax consequences if the Additional Notes were treated as contingent payment debt instruments. The discussion below assumes that the Additional Notes will not be treated as contingent payment debt instruments.

### **Pre-issuance Accrued Interest**

A portion of the purchase price paid for an Additional Note will be allocable to unpaid stated interest that has accrued prior to the date such Additional Note is purchased (the “pre-issuance accrued interest”). We intend to take the position that, on the first payment date, a portion of the interest received in an amount equal to the pre-issuance accrued interest will be treated as a return of a portion of the purchase price paid for such Additional Notes that is allocable to the pre-issuance accrued interest and not as a payment of interest on such Additional Notes or a pro rata prepayment that retires a portion of such Additional Notes. As a result, a portion of the first interest payment on such Additional Note equal to the amount of such pre-issuance accrued interest may be treated as a non-taxable return of such pre-issuance accrued interest (except that a U.S. Holder generally would be required to recognize exchange gain or loss, as discussed below, in an amount equal to the difference, if any, between the U.S. dollar value of the pre-issuance accrued interest at the time of purchase and at the time the payment of such pre-issuance accrued interest is received, as determined at the spot rate of exchange in effect on each such date). Amounts treated as a return of pre-issuance accrued interest should reduce a U.S. Holder’s adjusted tax basis in the applicable Additional Note by a corresponding amount (in the same manner as would a payment of principal).

### **Amortizable Bond Premium**

Generally, if a U.S. Holder purchases an Additional Note for an amount (excluding any portion thereof allocable to pre-issuance accrued interest, as discussed above) that exceeds the amount payable at maturity of the Additional Note (other than payments of stated interest), such U.S. Holder will be considered to have purchased the Additional Note with “amortizable bond premium” in an amount equal to the excess.

Subject to certain exceptions and the limitation discussed herein, a U.S. Holder may elect to amortize such any amortizable bond premium under the constant yield method over the period from the U.S. Holder’s acquisition date to the Additional Note’s maturity date. Amortizable bond premium is treated as a reduction of interest on the Additional Notes instead of as a deduction. A U.S. Holder that elects to amortize bond premium must reduce its tax basis in the Additional Notes by the U.S. dollar amount of the amortized bond premium used to offset stated interest income as set forth above. Any election to amortize bond premium applies to all bonds (other than bonds the interest on which is excludible from gross income) held by the U.S. Holder during the first taxable year to which the election applies or thereafter acquired by the U.S. Holder. The election may not be revoked without the consent of the IRS. Amortizable bond premium will be computed in foreign currency. A U.S. holder making the election to amortize bond premium may recognize exchange gain or loss each period equal to the difference between the U.S. dollar value of bond premium with respect to such period determined on the date the interest attributable to such period is received and the U.S. dollar value of such amortized bond premium determined on the date of the acquisition of the Notes.

The Additional Notes are subject to call provisions at our option at various times. A U.S. Holder generally will calculate the amount of amortizable bond premium based on the amount payable at the applicable call date, but only if use of the call date (in lieu of the stated maturity date) results in a smaller amortizable bond premium for the period ending on the call date. Because we may call the Additional Notes under certain circumstances at a price in excess of their principal amount, any reduction to interest income for amortizable bond premium may be reduced or delayed.

### **Payments of Stated Interest**

Subject to the above discussion of pre-issuance accrued interest, if applicable, a U.S. Holder that uses the cash method of tax accounting will be required to include in income the U.S. dollar value of the

euro-denominated interest payment on an Additional Note based on the spot rate of exchange on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. No foreign currency exchange gain or loss will be recognized with respect to the receipt of such payment (other than foreign currency exchange gain or loss realized on the disposition of the Euros so received, see “—*Foreign Account Tax Compliance*,” below).

A U.S. Holder that uses the accrual method of tax accounting will accrue interest income on an Additional Note in Euros and translate the amount accrued into U.S. dollars based on:

- the average exchange rate in effect during the interest accrual period, or portion thereof, within such U.S. Holder’s taxable year; or
- at such U.S. Holder’s election, at the spot rate of exchange on (1) the last day of the accrual period, or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year, or (2) the date of receipt, if such date is within five business days of the last day of the accrual period. Such election must be applied consistently by the U.S. Holder to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder and can be changed only with the consent of the IRS.

A U.S. Holder that uses the accrual method of tax accounting will recognize foreign currency exchange gain or loss on the receipt of an interest payment equal to the difference between (i) the value of the Euros received as interest, as translated into U.S. dollars using the spot rate of exchange on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars, and (ii) the U.S. dollar amount previously included in income with respect to such payment. Such foreign currency exchange gain or loss will be treated as ordinary income or loss, generally will be treated as U.S. source, and generally will not be treated as an adjustment to interest income received on the Additional Notes.

Any non-U.S. withholding tax paid by a U.S. Holder at the rate applicable to such holder may be eligible for foreign tax credits (or deduction in lieu of such credits) for U.S. federal income tax purposes, subject to applicable limitations. The calculation of foreign tax credits involves the application of complex rules that depend on a U.S. Holder’s particular circumstances. U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits. Interest generally will be income from sources outside of the United States.

#### **Sale, Exchange or Other Taxable Disposition of the Additional Notes**

Generally, upon the sale, exchange, retirement at maturity, redemption or other taxable disposition of an Additional Note, except as noted below with respect to foreign currency exchange gain or loss, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized by such U.S. Holder (except to the extent such amount is attributable to accrued but unpaid interest, which, unless it represents pre-issuance accrued interest, if applicable, will be taxable as described above under “—*Payments of Stated Interest*”) and such U.S. Holder’s adjusted tax basis in such Note. Subject to the discussion below, the adjusted tax basis of an Additional Note to a U.S. Holder will generally be the U.S. dollar value of the Euro purchase price calculated at the spot rate of exchange on the date of purchase, decreased by any amount attributable to pre-issuance accrued interest if applicable, received by such U.S. Holder, the amount of amortizable bond premium previously amortized by such U.S. Holder with respect to such Additional Note, and the amount of any payments made on such Note (other than payments of stated interest (except for any amount attributable to pre-issuance accrued interest as mentioned above)). The amount realized by a U.S. Holder upon the disposition of an Additional Note will generally be the U.S. dollar value of the Euros received calculated at the spot rate of exchange on the date of disposition.

If the Additional Notes are traded on an established securities market, a U.S. Holder that uses the cash method of tax accounting, and if it so elects, a U.S. Holder that uses the accrual method of tax accounting, will determine the U.S. dollar values of its adjusted tax bases in an Additional Note and the amount realized on the disposition of an Additional Note by translating Euro amounts at the spot rate of exchange on the settlement date of the purchase or the disposition, respectively. The election available to accrual basis U.S. Holders discussed above must be applied consistently by the U.S. Holder to all debt instruments from year to year and can be changed only with the consent of the IRS.

Any capital gain or loss will be long-term capital gain or loss if the U.S. Holder’s holding period for the Additional Notes exceeds one year on the date of disposition. Long-term capital gains recognized by non-corporate U.S. Holders are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.



Gain or loss recognized by a U.S. Holder on a sale, exchange, retirement at maturity, redemption or other taxable disposition of an Additional Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in the Euro to U.S. dollar exchange rate during the period in which the U.S. Holder held such Note. Such foreign currency exchange gain or loss will equal the difference between the U.S. dollar value of the Euro purchase price (if applicable, decreased by any amortizable bond premium previously amortized by the U.S. Holder and the amount of any pre-issuance accrued interest to the extent that payment of such interest is treated as a nontaxable return of such pre-issuance accrued interest) calculated at the spot rate of exchange on the date (1) the Additional Note is disposed of (or the spot rate on the settlement date, if applicable) and (2) of purchase (or the spot rate on the settlement date, if applicable). In addition, upon the sale, exchange, redemption, retirement or other taxable disposition of an Additional Note, a U.S. Holder may realize foreign currency exchange gain or loss attributable to amounts received with respect to previously accrued but unpaid interest, which will be treated as discussed above under “—*Payments of Stated Interest.*” The recognition of foreign currency exchange gain or loss described in this paragraph will be limited to the amount of overall gain or loss realized on the disposition of an Additional Note, and will be treated as ordinary income generally from sources within the United States for U.S. foreign tax credit limitation purposes.

### **Reportable Transactions**

Under applicable Treasury regulations, a U.S. Holder who participates in “reportable transactions” (as defined in the Treasury regulations) must attach to its United States federal income tax return a disclosure statement on IRS Form 8886 (Reportable Transaction Disclosure Statement). The Treasury regulations could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Additional Notes as a reportable transaction if this loss exceeds the relevant threshold in the Treasury regulations. U.S. Holders should consult their own tax advisors to determine the tax reporting obligations, if any, including any requirement to file IRS Form 8886, with respect to the ownership or disposition of the Additional Notes or any related transaction such as the disposition of any Euros received in respect of the Additional Notes.

### **Information Reporting and Backup Withholding**

In general, information reporting requirements will apply to payments of principal and interest on the Additional Notes and to the proceeds of the sale or other disposition (including a retirement or redemption) of an Additional Note paid to a U.S. Holder unless such U.S. Holder is an exempt recipient (such as a corporation), and, when required, provides evidence of such exemption. The payor (which may be us or an intermediate payor) will be required to impose backup withholding, currently at a rate of 24%, on such payments if (1) the U.S. Holder fails to furnish an accurate taxpayer identification number or to establish an exemption from backup withholding; (2) the IRS notifies the payor that the taxpayer identification number furnished by the U.S. Holder is incorrect; (3) there has been a “notified payee underreporting” described in section 3406(c) of the Code; or (4) the U.S. Holder has not certified under penalties of perjury that it has furnished a correct taxpayer identification number, that it is a “United States person” (as defined in the Code), and that the IRS has not notified such U.S. Holder that it is subject to backup withholding under the Code. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. Holder’s U.S. federal income tax liability provided that the required information is timely furnished to the IRS. U.S. Holders should consult their own tax advisors regarding the effect, if any, of the backup withholding rules on their particular circumstances.

### **Information with Respect to Foreign Financial Assets**

Certain U.S. Holders who are individuals and who hold an interest in “specified foreign financial assets” (as defined in section 6038D of the Code) are required to report information relating to an interest in the Additional Notes, subject to certain exceptions (including an exception for Additional Notes held in accounts maintained by certain financial institutions). Under certain circumstances, an entity may be treated as an individual for purposes of the foregoing rules. U.S. Holders should consult their tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of the Additional Notes.



## **Foreign Account Tax Compliance**

Sections 1471 through 1474 of the Code and the Treasury regulations promulgated thereunder (“FATCA”) generally impose a withholding tax (currently at a rate of 30%) on interest income paid on a debt obligation and, subject to regulatory relief described below, on the gross proceeds from the sale or other disposition of a debt obligation if such interest income or gross proceeds are treated as passthru payments attributable to certain U.S. source payments, in each case, to (i) a foreign financial institution (as the beneficial owner or as an intermediary for the beneficial owner), unless such institution enters into an agreement with the United States government to collect and provide to the United States tax authorities substantial information regarding United States account holders of such institution (which would include certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with United States owners) or (ii) a foreign entity that is not a financial institution (as the beneficial owner or as an intermediary for the beneficial owner), unless such entity provides the withholding agent with a certification identifying the substantial U.S. owners of the entity, which generally includes any “United States person” (as defined in the Code) who directly or indirectly owns more than 10% of the entity, in each case, unless another exemption applies. Investors are encouraged to consult with their own tax advisors regarding the implications of FATCA on their investment in an Additional Note.

Obligations issued on or prior to the date that is six months after the date on which applicable final regulations defining foreign passthru payments are published generally would be “grandfathered” unless materially modified after such date. Accordingly, if the Senior Secured Notes Issuer is treated as a foreign financial institution, FATCA would apply to payments on a series of the Additional Notes only if there is a significant modification of the Tap Notes of such series for U.S. federal income tax purposes after the expiration of this grandfathering period. Non-U.S. governments have entered into agreements with the United States (and additional non-U.S. governments are expected to enter into such agreements) to implement FATCA in a manner that alters the rules described herein. Under proposed Treasury regulations that may be relied upon pending finalization, the withholding tax on gross proceeds would be eliminated and, consequently, FATCA withholding on gross proceeds is not currently expected to apply.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE ADDITIONAL NOTES IN LIGHT OF THE INVESTOR’S OWN CIRCUMSTANCES.

## **CERTAIN INSOLVENCY LAW CONSIDERATIONS AND LIMITATIONS ON THE VALIDITY AND ENFORCEABILITY OF THE SENIOR SECURED NOTES GUARANTEES AND SECURITY INTERESTS**

### **European Union**

Pursuant to Regulation (EU) No. 2015/848 of May 20, 2015 (the “Recast Insolvency Regulation”), replacing Council Regulation (EC) No. 1346/2000 of May 29, 2000 on insolvency proceedings, as amended (the “EU Insolvency Regulation”) and starting from June 26, 2017, the court which shall have jurisdiction to open the main insolvency proceedings in relation to a company is the court of the member state of the European Union, other than Denmark, (a “Regulated Member State”) within the territory of which the company concerned has its “centre of main interests.”

In the case of a company or legal person, the place of the registered office shall be presumed to be its centre of main interests in the absence of proof to the contrary (Article 3(1) of the Recast Insolvency Regulation). That presumption shall only apply if the registered office has not been moved to another Regulated Member State within the three month period prior to the request for the opening of insolvency proceedings. In addition, that presumption is rebuttable, and the relevant court of a Regulated Member State should carefully assess whether the centre of main interests is genuinely located in that Regulated Member State. Specifically, it should be possible to rebut the presumption where the company’s central administration is located in a Regulated Member State other than that of its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company’s actual centre of management and supervision and of the management of its interests is located in that other Regulated Member State (Recital (30) of the Recast Insolvency Regulation). When determining whether the centre of main interests is ascertainable by third parties, special consideration should be given to the creditors and to their perception as to where a company conducts the administration of its interests. This may require, in the event of a shift of centre of main interests, informing creditors of the new location from which the company is carrying out its activities in due course, for example by drawing attention to the change of address in commercial correspondence, or by making the new location public through other appropriate means (Recital (28) of the Recast Insolvency Regulation).

If the centre of main interests of the debtor is located in the Regulated Member State in which it has its registered office, the main insolvency proceedings under the Recast Insolvency Regulation shall be opened in that Regulated Member State and accordingly the courts of that Regulated Member State shall have jurisdiction to open any of the insolvency proceedings applicable in that Regulated Member State (see Annex A of the Recast Insolvency Regulation).

Notwithstanding the opening of a main insolvency proceeding in a Regulated Member State, “secondary insolvency proceedings” may be opened in another Regulated Member State if such debtor possesses an “establishment” (as defined in Article 2(10) of the Recast Insolvency Regulation) in that Member State. The effects of these proceedings shall be restricted to the assets of the debtor in the territory of that Regulated Member State.

If the debtor possesses an “establishment” in a Regulated Member State, “territorial proceedings” under Article 3(4) of the Recast Insolvency Regulation may be opened prior to the opening of main insolvency proceedings, where (a) main insolvency proceedings cannot be opened because of the conditions laid down by the law of the Regulated Member State within the territory of which the center of the debtor’s main interests is situated or (b) the opening of territorial insolvency proceedings is requested by (i) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the Regulated Member State where the opening of territorial proceedings is requested or (ii) a public authority which, under the law of the Regulated Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings. When main insolvency proceedings are opened, the territorial insolvency proceedings shall become secondary insolvency proceedings.

In the event that the Senior Secured Notes Issuer or any provider of collateral experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings will be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Senior Secured Notes Issuer and the collateral provided by the Senior Secured Notes Issuer or any other company. The insolvency, administration and other laws of the jurisdictions in which the respective companies are organized or operate may be

materially different from, or conflict with, each other and there is no assurance as to how the insolvency laws of the potentially involved jurisdictions will be applied in relation to one another.

## Germany

### Insolvency

The Senior Secured Notes Issuer and certain Guarantors are organized under the laws of Germany, have their registered offices in Germany and substantially all of their assets are located in Germany. In the event of an insolvency of the Senior Secured Notes Issuer or a Guarantor organized under the laws of Germany and/or having its “centre of main interests” in Germany (the Senior Secured Notes Issuer and any other such Guarantor, a “German Notes Guarantor”) at the time the petition for the opening of insolvency proceedings (*Insolvenzeröffnungsantrag*) is filed, any main insolvency proceedings would most likely be initiated in Germany. Such proceedings would then be governed by German law. Under certain circumstances, insolvency proceedings may also be opened in Germany in accordance with German law over the assets of companies that are not established under German law (for example, if the centre of main interests of such company is within Germany) or, vice versa, insolvency over the Senior Secured Notes Issuer or the German Notes Guarantors may be opened in other jurisdictions. See “*Certain Insolvency Law Considerations and Limitations on the Validity and Enforceability of the Senior Secured Notes Guarantees and Security Interests—European Union.*”

The insolvency laws of Germany and, in particular, the provisions of the German Insolvency Code (*Insolvenzordnung*), may not be as favorable to your interests as creditors than the insolvency laws of the United States or another jurisdiction with which you may be familiar, including in respect of priority of creditors’ claims, the ability to obtain post-petition interest as well as in certain circumstances priority recovery for secured creditors and the duration of the insolvency proceedings, and thus may limit your ability to recover payments due on the Additional Notes to an extent exceeding the limitations arising under other insolvency laws.

The following is a brief description of certain aspects of the insolvency laws of Germany:

Under German insolvency law, insolvency proceedings are not initiated by the competent insolvency court ex officio, but require that the debtor and/or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings can be initiated either by the debtor or by a creditor in the event of over indebtedness (*Überschuldung*) of the debtor or in the event of its illiquidity (*Zahlungsunfähigkeit*), meaning that the debtor is unable to pay 10% or more of its debts as and when they fall due for a period longer than three weeks. According to the relevant provision of the German Insolvency Code (*Insolvenzordnung*), a debtor is over indebted when its liabilities exceed the value of its assets (based on their liquidation values), unless a continuation of the debtor’s business as a going concern is predominantly likely (*überwiegend wahrscheinlich*) based on an up to two year forecast horizon (*positive Fortführungsprognose*). If a limited liability company (*Gesellschaft mit beschränkter Haftung*), a public limited liability company (*Aktiengesellschaft*), a European law stock corporation based in Germany (*Societas Europaea*) or any other company not having an individual as personally liable shareholder or partner finds itself in a situation of illiquidity and/or over indebtedness, the management board or managing director(s) of such company and, in certain circumstances, its shareholders, are obligated to file for insolvency without undue delay but not later than three weeks after such illiquidity and/or over indebtedness occurred or (as the case may be) was established. Non-compliance with these obligations exposes management to both severe damages claims as well as sanctions under criminal law. A debtor is not considered over indebted even when its liabilities exceed the value of its assets if, given the circumstances, it is more likely than not that the debtor’s business can survive as a going concern. In addition, only the debtor, but not the creditors, can file for the opening of insolvency proceedings in the event of imminent illiquidity (*drohende Zahlungsunfähigkeit*), if there is the imminent risk of the company being unable to pay its debts as and when they fall due at some point in time within a certain prognosis period, whereas imminent illiquidity does not give rise to an obligation for the management of the debtor to file for insolvency proceedings.

If a company faces imminent illiquidity (*drohende Zahlungsunfähigkeit*) and/or is over indebted (*Überschuldung*) it may also file for preliminary “debtor in possession” moratorium proceedings (*Schutzschirmverfahren*) unless—from a third-party perspective—there is no reasonable chance for a successful restructuring. Upon such filing by the debtor, the court will appoint a preliminary trustee (*vorläufiger Sachwalter*) and prohibit enforcement measures (other than with respect to immovable assets). It may also implement other preliminary measures to protect the debtor from creditor enforcement

actions for up to three months. During that period, the debtor shall prepare an insolvency plan which ideally shall be implemented in formal “debtor in possession” proceedings (*Eigenverwaltung*) after formal insolvency proceedings have been opened.

The insolvency proceedings are controlled by the competent insolvency court, which monitors the due performance of the proceedings. Upon receipt of the insolvency petition, the insolvency court may take preliminary measures to secure the property of the debtor during the preliminary proceedings (*Insolvenzeröffnungsverfahren*). The insolvency court may prohibit or suspend any measures taken to enforce individual claims against the debtor’s assets during these preliminary proceedings insofar as these protective measures are reasonable to protect the debtor’s assets and/or to ensure the continuation of the debtor’s business.

Unless the debtor has applied for debtor in possession proceedings (*Eigenverwaltung*) (in which event the court will generally only appoint a preliminary trustee (*vorläufiger Sachwalter*) who will supervise the management of the affairs by the debtor) the insolvency court will in most cases appoint a preliminary insolvency administrator (*vorläufiger Insolvenzverwalter*). The rights and duties of the preliminary administrator depend on the decision of the court. The duties of the preliminary administrator may include safeguarding and preserving the debtor’s property and assessing whether the debtor’s net assets will be sufficient to cover the costs of the insolvency proceedings. Depending on the decision of the court, even the right to manage the business and dispose of the assets of the debtor may pass to the preliminary insolvency administrator. The insolvency court can also order a stay of all enforcement measures by unsecured creditors against the debtor and other measures the court sees as appropriate.

During preliminary insolvency proceedings, the insolvency court has to appoint a “preliminary creditors’ committee” (*vorläufiger Gläubigerausschuss*) if the debtor satisfies at least two of the following three requirements:

- (a) a balance sheet total in excess of €6,000,000 (after deducting an equity shortfall if the debtor is over indebted);
- (b) revenues of at least €12,000,000 in the twelve months prior to the last day of the financial year preceding the filing; and/or
- (c) fifty or more employees on an annualized average basis.

The preliminary creditors’ committee will be able to participate in certain important decisions made in the preliminary insolvency proceedings. It will have, for example, the power to influence the following: the selection of a preliminary insolvency administrator (*vorläufiger Insolvenzverwalter*) or an insolvency administrator (*Insolvenzverwalter*); court orders for “debtor in possession” proceedings (*Anordnung der Eigenverwaltung*); and appointments of (preliminary) trustees ((*vorläufiger*) *Sachwalter*). The court opens formal insolvency proceedings (*Eröffnung des Insolvenzverfahrens*) if certain formal requirements are met, including if (i) the debtor is in a situation of imminent illiquidity (if the petition has been filed by the debtor), illiquidity and/or over indebted and (ii) if there are sufficient assets to cover at least the cost of the insolvency proceedings. If the assets of the debtor are not expected to be sufficient to cover such costs, the insolvency court will only open formal insolvency proceedings if third parties (e.g., creditors), advance the costs themselves. In the absence of such advancement, the petition for the opening of insolvency proceedings will usually be refused for insufficiency of assets (*Abweisung mangels Masse*).

Unless the court has granted debtor in possession status (*Eigenverwaltung*) (in which case the court will only appoint a trustee (*Sachwalter*) who will supervise the management of the affairs by the debtor), upon opening of the insolvency proceedings, the court will appoint an insolvency administrator (*Insolvenzverwalter*) who has full administrative and disposal authority over the debtor’s assets, whereas the debtor is no longer entitled to dispose of its assets. The insolvency creditors (*Insolvenzgläubiger*) will only be entitled to change the individual appointed as insolvency administrator at the occasion of the first creditors’ assembly (*erste Gläubigerversammlung*) with such change requiring that (i) a simple majority of votes cast (by heads and amount of insolvency claims) has voted in favor of the proposed individual to become insolvency administrator and (ii) the proposed individual being eligible as officeholder, i.e., sufficiently qualified, business experienced and impartial. The insolvency administrator (or in the case of debtor in possession proceedings, the debtor) may raise new financial indebtedness and incur other liabilities to continue the debtor’s operations, and satisfaction of these liabilities as preferential debts of the estate (*Masseverbindlichkeiten*) will be preferred to any insolvency liabilities created by the debtor including the Guarantees.



The insolvency administrator or trustee may also challenge transactions that are deemed detrimental to insolvency creditors and which were effected prior to the opening of the insolvency proceedings (See “—Hardening Periods, Fraudulent Transfer and Amendments of German Restructuring Laws by the Restructuring Directive”).

For the holders of the Additional Notes, the consequences of the opening of German insolvency proceedings against the Senior Secured Notes Issuer or any Guarantor’s subject to the German insolvency regime would include the following:

- (a) unless the court orders debtor in possession proceedings (*Eigenverwaltung*), the right to administer and dispose of the Senior Secured Notes Issuer or the Guarantor’s assets would generally pass to the (preliminary) insolvency administrator ((*vorläufiger Insolvenzverwalter*) as sole representative of the insolvency estate;
- (b) unless the court orders debtor in possession proceedings (*Eigenverwaltung*), disposals effected by the Senior Secured Notes Issuer or the Guarantor’s management after the opening of insolvency proceedings are null and void by operation of law;
- (c) if, during the final month preceding the date of filing for insolvency proceedings, a creditor in the insolvency proceedings acquires through execution (e.g., attachment) a security interest in part of the debtor’s property that would normally form part of the insolvency estate, such security becomes null and void by operation of law upon the opening of the insolvency proceedings;
- (d) claims against the Senior Secured Notes Issuer or any Guarantors may generally only be pursued in accordance with the rules set forth in the German Insolvency Code (*Insolvenzordnung*); and
- (e) any person that has a right for separation (*Aussonderung*), i.e., the relevant asset of this person does not constitute part of the insolvency estate, does not participate in the insolvency proceedings; the claim for separation must be enforced in the course of ordinary court proceedings against the insolvency administrator.

Certain of these consequences could be achieved by decision of the insolvency court following the insolvency petition and prior to the opening of insolvency proceedings.

Under German insolvency law, termination rights, automatic termination events or “escape clauses” entitling one party to terminate an agreement, or resulting in an automatic termination of an agreement, upon the opening of insolvency proceedings in respect of the other party, the filing for insolvency or the occurrence of reasons justifying the opening of insolvency proceedings (*insolvenzbezogene Kündigungsrechte oder Lösungsklauseln*) may be invalid if they frustrate the election right of the insolvency administrator whether or not to perform the contract unless they reflect termination rights (*Wahlrecht des Insolvenzverwalters*) applicable under statutory law. This may also relate to agreements that are not governed by German law.

All other creditors, whether secured or unsecured (unless they have a right to segregate an asset from the insolvency estate (*Aussonderungsrecht*) or are preferred creditors (*Massegläubiger*) as opposed to a preferential right (*Absonderungsrecht*)), who wish to assert claims against the debtor need to participate in the insolvency proceedings and have to file their claims against the debtor and the rights they claim in the assets of the debtor with the insolvency administrator. With the exception of certain secured creditors, an individual enforcement action brought against the debtor by any of its creditors is subject to an automatic stay once the insolvency proceedings have been opened (and, if so ordered by a court, also between the time when an insolvency petition is filed and the time when insolvency proceedings commence). German insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims in the insolvency proceedings separately, but can instead only enforce them in compliance with the restrictions of the German Insolvency Code (*Insolvenzordnung*). Accordingly, unsecured creditors may file their claims in the insolvency proceedings and will be paid on a pro rata basis from the insolvency estate (to the extent sufficient assets are available). Secured creditors are generally not entitled to enforce their security interests after insolvency proceedings have been commenced to the extent the German Insolvency Code (*Insolvenzordnung*) authorizes the insolvency administrator to dispose of the relevant collateral but have only certain preferential rights (*Absonderungsrechte*) in the insolvency proceedings. In this case, secured creditors will only have a right to claim the recoveries (minus costs and fees) from such realization. Whether or not, after the initiation of insolvency proceedings, a secured creditor remains entitled to enforce security granted to it by the relevant debtor depends on the type of security: The insolvency administrator generally has the sole right (i) to realize any movable assets within its possession



that are subject to preferential rights (*Absonderungsrechte*) (e.g., pledges over movable assets and rights (*Mobiliarpfandrechte*), transfer by way of security (*Sicherungsübereignung*)) and (ii) to collect any claims that are subject to security assignment agreements (*Sicherungsabtretungen*). According to some voices in legal literature, it is uncertain whether the secured creditors are entitled to initiate the enforcement process in respect of pledged uncertificated shares on their own or, insofar as the pledged assets are part of any insolvency estate, whether the insolvency administrator has standing to realize the pledges on behalf of and for the benefit of the secured creditors. However, there is no authoritative case law on this question.

Even if the law vests the right of disposal regarding the relevant collateral in the insolvency administrator, the secured creditor retains the right of preferred satisfaction with regard to the disposal proceeds (*Absonderungsrecht*). Consequently, the enforcement proceeds minus certain contributory charges of 9% (or more as agreed upon individually) for (i) assessing the value of the secured assets and (ii) realizing the secured assets are paid to the creditor holding a security interest in the relevant collateral up to an amount equal to its secured claims. Remaining amounts (“excess proceeds”) will be allocated to the insolvency estate (*Insolvenzmasse*) and would, after deduction of the costs of the insolvency proceedings (e.g., fees for and expenses of the preliminary insolvency administrator, the insolvency administrator and the insolvency court as well as the members of the creditors’ committee) and after satisfaction of certain preferential liabilities be distributed among the non-preferential unsecured creditors, including the holders of the Additional Notes (to the extent not satisfied after enforcement of the Senior Secured Notes Collateral securing the Additional Notes). If a German Notes Guarantor or a subsidiary subject to German insolvency proceedings grants security over its assets to creditors other than the holders of the Additional Notes, such security may result in a preferred satisfaction of creditors secured by such security (however, the preferential treatment would be limited to the proceeds obtained through the disposal of the relevant collateral). The excess proceeds resulting from such collateral may not be sufficient to satisfy the obligations under the Additional Notes by the German Notes Guarantors after such secured creditors have been satisfied.

The right of a creditor to preferred satisfaction (*Absonderungsrecht*) may not necessarily prevent the insolvency administrator from using a movable asset that is subject to this right. The insolvency administrator, however, must compensate the creditor in accordance with specific rules. In addition, it may take several years before proceeds from the liquidation of the insolvency estate, if any, are distributed to unsecured creditors. A different distribution of enforcement proceeds can be proposed in an insolvency plan (*Insolvenzplan*) that can be submitted by the debtor or the insolvency administrator and which requires, in principle, the consent of the debtor as well as the consent of each class of creditors in accordance with specific majority rules. Under German insolvency laws, it is possible to implement a debt to equity swap through an insolvency plan. However, it will not be possible to force a creditor into a debt to equity conversion if it does not consent to such debt to equity swap. Under certain conditions, the debtor may also file for protective shield proceedings (*Schutzschirmverfahren*). In such case and upon request of the debtor, the court will prohibit enforcement measures (other than with respect to immovable assets) and may implement other preliminary measures to protect the debtor from credit enforcement actions for up to three months if an independent expert testifies that the restructuring of the debtor’s business is not obviously futile (*offensichtlich aussichtslos*) and that the debtor is not already illiquid. Given the relatively recent enactment of these amendments, these provisions may not have been tested in practice and no judicial precedents are available in such respect.

Under German insolvency law, there is no consolidation of the assets and liabilities of a group of companies in the event of insolvency. In the case of a group of companies, each entity, from an insolvency law point of view, has to be dealt with separately (i.e., there is no group insolvency concept under German insolvency law). As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather claims of and vis à vis each entity have to be dealt with separately. As a general principle, the claims arising from a guarantee may be enforced against a German Notes Guarantor outside of the insolvency proceedings over the assets of the Senior Secured Notes Issuer. Any insolvency proceeding over the assets of the Senior Secured Notes Issuer would, however, be a rather strong indication that the overall financial situation of the entire group of affiliated companies has significantly deteriorated, which may cause a German Notes Guarantor to subsequently file for insolvency. On April 13, 2017, the German legislator passed an act to facilitate the mastering of group insolvencies (*Gesetz zur Erleichterung der Bewältigung von Konzerninsolvenzen*), which came into force on April 21, 2018. This act is mainly intended to facilitate the coordination of and cooperation between insolvency proceedings of group companies. This act does not provide for a consolidation of the insolvency proceedings of the insolvent group companies, or a consolidation of the assets and liabilities of a group of companies or pooling of

claims among the respective entities of a group, but rather stipulates four key amendments of the German Insolvency Code in order to facilitate an efficient administration of group insolvencies: (i) a single court may assume jurisdiction for other group company insolvency proceedings (*Gruppen Gerichtsstand*); (ii) the appointment of a single person as insolvency administrator for all relevant group companies is facilitated; (iii) certain coordination obligations are imposed on insolvency courts, insolvency administrators and creditors' committees; and (iv) certain parties may apply for "coordination proceedings" (*Koordinationsverfahren*) and the appointment of a "coordinator" (*Verfahrenskoordinator*) with the ability to propose a "coordination plan" (*Koordinationsplan*).

German insolvency law provides for certain creditors and their claims to be subordinated by law (including, but not limited to, claims made by shareholders (unless privileged) of the relevant debtor for the return of repayment of shareholder loans or comparable actions). The restrictive nature of the covenants and undertakings in the Indenture may result in the holders of the Additional Notes and/or the applicable Trustee being considered in a "shareholder like position" (*gesellschafterähnliche Stellung*). In that event, in an insolvency proceeding over the assets of a German Notes Guarantor, the claims arising from a Senior Secured Notes Guarantee would be treated as a subordinated insolvency claim (*nachrangige Insolvenzforderungen*). Subordinated insolvency claims are not eligible to participate in the insolvency proceedings over the assets of a German Notes Guarantor unless the insolvency court handling the case has granted special permission allowing these subordinated insolvency claims to be filed which is not granted in the vast majority of insolvency cases governed by German law. Claims of a person who becomes a creditor of the insolvency estate only after the opening of insolvency proceedings generally rank senior to the claims of regular, unsecured creditors.

Powers of attorney granted by the relevant debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings. Certain executory contracts become unenforceable at such time unless and until the insolvency administrator opts for performance.

#### *Limitations on Enforcement*

Some of the German Notes Guarantors are incorporated in Germany in the form of a limited liability company (*Gesellschaft mit beschränkter Haftung*—"GmbH") and/or a stock corporation (*Aktiengesellschaft*). Consequently, the granting of guarantees, indemnities and security interests by these companies is subject to certain provisions of the German Limited Liability Company Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*, "GmbHG"), the German Stock Corporation Act (*Aktiengesetz*) and other laws. These provisions would also apply to any future German Notes Guarantor in the form of a GmbH or a partnership with a GmbH as unlimited liability partner (e.g., GmbH & Co. KG) or *Aktiengesellschaft*.

#### *GmbH Limitation Language*

As a general rule, sections 30 and 31 of the GmbHG ("Sections 30 and 31") prohibit a GmbH from disbursing its assets to its direct or indirect shareholders, to the extent that the amount of the GmbH's net assets (i.e., assets minus liabilities and liability reserves) is already less or would fall below the amount of its stated share capital (*Stammkapital*). The granting or enforcement of guarantees or security interests by a GmbH in order to guarantee or secure liabilities of a direct or indirect parent or sister company may be considered disbursements under Sections 30 and 31. Therefore, in order to enable German subsidiaries to issue guarantees or create security interests to secure liabilities of a direct or indirect parent or sister company without the risk of violating Sections 30 and 31, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain "limitation language" in relation to subsidiaries in the legal form of a GmbH or partnership with a GmbH as unlimited liable partner incorporated or established in Germany. Pursuant to such limitation language, the beneficiaries of the guarantees or the security interests agree, subject to certain adjustments and exemptions, to enforce the guarantees or the security interests against the German subsidiary only to the extent that such enforcement does not result in the GmbH's (or, in case of a partnership with a GmbH as unlimited liable partner, such GmbH's) net assets falling below its stated share capital or, as the case may be, if the net assets are already below the amount of its stated share capital, to cause such amount to be further reduced. Accordingly, the Senior Secured Notes Guarantee, the Indenture and the Security Documents provided by the German Notes Guarantors contains or will contain, respectively, such limitation language and therefore the enforcement of the Senior Secured Notes Guarantees, the Indenture and the Senior Secured Notes Collateral is limited in the manner described. This could lead to a situation in which the respective guarantee or security granted by the relevant German Notes Guarantor cannot be enforced at all.

The limitation language for any GmbH or GmbH & Co. KG incorporated into the relevant Notes Documents, in particular in the Indenture, is substantially be in the form as follows:

- “(a) The restrictions in this Clause shall apply to any guarantee, indemnity, liability and other payment obligations under this Clause or any other provision in this Indenture and/or any other documents in connection therewith granted by a Guarantor incorporated under the laws of Germany as a limited liability company (GmbH) (a “German GmbH Guarantor”) to secure liabilities of its current or any future direct or indirect shareholder(s) (upstream) or a subsidiary of such shareholder (but excluding any direct or indirect subsidiary of such Guarantor) (cross stream) (a “Guarantee”).
- (b) The restrictions in this Clause shall not apply:
- (i) with respect to a Capital Impairment (as defined below), to the extent the German GmbH Guarantor secures any indebtedness under this Indenture in respect of (i) loans to the extent such loans are (directly or indirectly) on-lent or otherwise passed on to the relevant German GmbH Guarantor or its subsidiaries or (ii) bank guarantees or letters of credit that are issued for the benefit of any of the creditors of the German GmbH Guarantor or the German GmbH Guarantor’s subsidiaries, in each case, to the extent that any such on lending or otherwise passing on or bank guarantees or letters of credit are still outstanding at the time of the enforcement of the Guarantee; for the avoidance of doubt, nothing in this paragraph (b) shall have the effect that such on-lent amounts may be enforced multiple times (no double dip);
  - (ii) with respect to a Capital Impairment (as defined below), if, at the time of enforcement of the Guarantee, a domination and/or profit and loss pooling agreement (*Beherrschungs- und/oder Gewinnabführungsvertrag*) as per Section 291 of the German Stock Corporation Act (*Aktiengesetz, AktG*) (either directly or indirectly through an unbroken chain of domination and/or profit transfer agreements) exists between the relevant German GmbH Guarantor as a dominated company, and:
    - (A) that German GmbH Guarantor is a subsidiary of the relevant obligor whose obligations are secured by the relevant Guarantee, that Guarantor; or
    - (B) the German GmbH Guarantor and the relevant Guarantor whose obligations are secured by the relevant Guarantee are both subsidiaries of a joint (direct or indirect) parent company and such parent company as dominating entity (*beherrschendes Unternehmen*),in each case to the extent the existence of such domination and/or profit and loss pooling agreement (*Beherrschungs- und/oder Gewinnabführungsvertrag*) leads to the inapplicability of section 30 paragraph 1 sentence 1 of the German Limited Liabilities Company Act (*GmbHG*);
  - (iii) with respect to a Capital Impairment (as defined below), to the extent any payment under the Guarantee demanded by the Trustee from the relevant German GmbH Guarantor is covered (*gedeckt*) by a fully valuable and recoverable consideration or recourse claim (*vollwertiger Gegenleistungs oder Rückgewähranspruch*) of the German GmbH Guarantor against the affiliate whose obligations are secured by the relevant Guarantee; or
  - (iv) if the relevant German GmbH Guarantor has not complied with its obligations pursuant to paragraphs (d) and (e) below. However, if and to the extent that the Guarantee has been enforced without regard to the restrictions contained in this Clause because the Management Notification (as defined herein) and/or the Auditor’s Determination (as defined below) has not (or not in a timely manner) been delivered pursuant to paragraphs (d) and (e) below, but the Auditor’s Determination has then been delivered within four months from its due date in accordance with paragraph (e) below, the Trustee shall upon demand of the German GmbH Guarantor repay any amount received from the German GmbH Guarantor which pursuant to the Auditor’s Determination would not have been available for enforcement, if the Auditor’s Determination had been delivered in a timely manner.
- (c) The parties to this Indenture agree that if and to the extent payment under the Guarantee would cause (i) the amount of a German GmbH Guarantor’s Net Assets, as calculated and defined pursuant to paragraph (g) below, to fall below the amount required to maintain its registered share capital (*Stammkapital*) or increase an existing shortage (*Vertiefung einer Unterbilanz*) of its registered share capital (*Stammkapital*) and thereby violating §§ 30, 31 GmbHG (such event, a “Capital Impairment”), or (ii) a German GmbH Guarantor to be deprived of the liquidity necessary to fulfil its liabilities towards its creditors and thereby violating Section 64 sentence 3 of the German Limited Liabilities

Company Act (*GmbHG*) (such event, a “Liquidity Impairment”) then the Trustee shall not enforce and the German GmbH Guarantor shall, subject to paragraphs (d) and (e) below, have a defense (*Einrede*) against any claim under the Guarantee if and to the extent such Capital Impairment or Liquidity Impairment would occur.

- (d) If the relevant German GmbH Guarantor does not notify the Trustee in (the “Management Notification”) within fifteen (15) business days after the making of a demand against that German GmbH Guarantor under the Guarantee:

- (i) to what extent such Guarantee is an upstream or cross stream guarantee or indemnity; and
  - (ii) to what extent a Capital Impairment or Liquidity Impairment would occur as a result of an enforcement of the Guarantee (setting out in reasonable detail the amount of its Net Assets or to which extent the liquidity would be deprived, providing an up to date pro forma balance sheet or liquidity statement),

then the restrictions set out in this Clause shall cease to apply until a Management Notification has been provided.

- (e) If the Trustee disagrees with the Management Notification, it may within twenty (20) business days of its receipt, request the relevant German GmbH Guarantor to provide to the Trustee within forty five (45) business days of receipt of such request a determination by the German GmbH Guarantor’s auditors or any other auditors of international standard and reputation (the “Auditor’s Determination”) appointed by the German GmbH Guarantor (at its own cost and expense) setting out in reasonable detail the amount in which the payment under the Guarantee would cause a Capital Impairment or Liquidity Impairment, subject to the terms set out under this Clause. Save for manifest errors, the Auditor’s Determination shall be binding on all parties.
  - (f) If, after it has been provided with an Auditor’s Determination which prevented it from demanding any or only partial payment under the Guarantee, the Trustee ascertains in good faith that the financial conditions of the German GmbH Guarantor as set out in the Auditor’s Determination has substantially improved, the Trustee may (acting reasonably), at the German GmbH Guarantor’s cost and expense, arrange for the preparation of an updated balance sheet of the German GmbH Guarantor by applying the same principles that were used for the preparation of the Auditor’s Determination by the auditors who prepared the Auditor’s Determination in order for such auditors to determine whether (and, if so, to what extent) the Capital Impairment and Liquidity Impairment has been cured as result of the improvement of the financial condition of the German GmbH Guarantor. The Trustee may not arrange for the preparation of an Auditor’s Determination prior to the expiry of three months from the date of the issuance of the preceding Auditor’s Determination. The Trustee may only demand payment under the Guarantee to the extent the auditors determine that the Capital Impairment and Liquidity Impairment have been cured.
  - (g) The net assets (*Reinvermögen*) of the German GmbH Guarantor (the “Net Assets”) shall be calculated in accordance with § 42 GmbHG, §§ 242, 264 of the HGB and the generally accepted accounting principles applicable from time to time in Germany (*Grundsätze ordnungsgemäßer Buchführung*) and for the purposes of calculating the Net Assets, the following balance-sheet items shall be adjusted as follows:
    - (i) the amount of any increase in the registered share capital of the relevant German GmbH Guarantor which was carried out after the relevant German GmbH Guarantor became a party to this Agreement and made from retained earnings (*Kapitalerhöhung aus Gesellschaftsmitteln*) shall be deducted from the amount of the registered share capital (*Stammkapital*) of the relevant German GmbH Guarantor if it is expressly prohibited under this Indenture and has been carried out without the prior written consent of the agent;
    - (ii) the amount of non-distributable assets according to Section 253 subsection 6 of the HGB shall not be included in the calculation of Net Assets;
    - (iii) the amount of non-distributable assets according to Section 268 subsection 8 of the HGB shall not be included in the calculation of Net Assets;
    - (iv) the amount of non-distributable assets according to Section 272 subsection 5 of the HGB shall not be included in the calculation of Net Assets; and



- (v) loans or other liabilities incurred by the relevant German GmbH Guarantor in willful or grossly negligent violation of this Indenture shall not be taken into account as liabilities.
- (h) Where a German GmbH Guarantor claims in accordance with the provisions of this Clause that the Guarantee can only be enforced in a limited amount, it shall (A) realize, to the extent lawful and within reasonable opinion commercially justifiable, any and all of its assets that are shown in the balance sheet with a book value (*Buchwert*) that is significantly lower than the market value of the assets and are not necessary (*betriebsnotwendig*) for the relevant German GmbH Guarantor's business, and (B) use best efforts to realize, to the extent legally permitted in a situation where it does not have sufficient liquidity to fulfil its liabilities to its creditors, any and all of its assets if the relevant asset is not necessary for the German GmbH Guarantor's business (*nicht betriebsnotwendig*).
- (i) Nothing in this Clause shall constitute a waiver (*Verzicht*) of any right granted under this Indenture to the Trustee.
- (j) Nothing in this Clause shall prevent the Trustee or a German GmbH Guarantor from claiming in court that the provision of this Guarantee and/or making payments under this Guarantee by the relevant German GmbH Guarantor does or does not fall within the scope of §§ 30, 31 and/or 64 sentence 3 of the GmbHG and/or § 826 German Civil Code (*Bürgerliches Gesetzbuch*).
- (k) In addition to the restrictions set out in this Clause, if a German GmbH Guarantor demonstrates that, according to the decisions of the German Federal Supreme Court (*Bundesgerichtshof*) or a higher regional court of appeals (*Oberlandesgericht*), the enforcement of any upstream or cross stream guarantee or security interest against such German GmbH Guarantor would result in personal liability of its managing director(s) (*Geschäftsführer*) for a reimbursement of payments made under the Guarantee (including, without limitation, pursuant to § 826 of the German Civil Code (*Bürgerliches Gesetzbuch*)), the German GmbH Guarantor shall have a defense (*Einrede*) against the Guarantee to the extent required in order not to incur such liability.
- (l) The provisions of this Clause shall apply to a limited partnership with a limited liability company as its general partner (GmbH & Co. KG) *mutatis mutandis* and all references to Capital Impairment, Liquidity Impairment and Net Assets shall be construed as a reference to the Capital Impairment, Liquidity Impairment and Net Assets of the general partner (*Komplementär*) of the German GmbH Guarantor.
- (m) For the purposes of this Clause, a reference to a "German GmbH Guarantor" includes any limited liability company incorporated (or limited partnership with a limited liability company as its general partner) in a jurisdiction other than Germany whose centre of main interest (as that term is used in Article 3(1) of Regulation (EU) No. 2015/848 of May 20, 2015 on Insolvency Proceedings) is in Germany.
- (n) The parties are aware that—due to recent developments—it is currently discussed which point in time is relevant when determining whether a managing director or other representative of a German guarantor has complied with the capital maintenance provisions. In respect of a valuation of the Net Assets which are available for enforcement of a guarantee without causing any liability for management, the parties consider the point in time of the enforcement of the Guarantee as being relevant which is therefore the relevant point in time for calculating the available Net Assets purposes of this Clause. Should new legislation or jurisprudence of a higher regional court (*Oberlandesgericht*) or the Federal Court of Justice (*Bundesgerichtshof*) (including, without limitation, based on proceedings initiated by the relevant Guarantor and/or its managing directors (*Geschäftsführer*)) be published and/or come into force after the date of this Indenture and should such law or court ruling lead to a different legal and/or factual assessment:
  - (i) of the granting of the guarantee by the relevant Guarantor, the Trustee shall, upon the relevant Guarantor's managing directors' (*Geschäftsführer*) (or other representative's) request, enter into good faith negotiations on possible amendments to this Clause to the extent necessary to avoid the managing directors' (*Geschäftsführer*) (or other representative's) personal liability resulting from the granting of the guarantee (taking into account the initial intention of the limitations set out in this Clause and, including but not limited to, amending reference points for the assessment whether or not a violation of sections 30, 31 GmbHG has occurred); or
  - (ii) of the enforcement of the guarantee so that the limitations in this Clause are, are not, or only partially be, required to protect the managing directors (*Geschäftsführer*) (or other



representatives) of the Guarantor(s) from the risk of personal liability from the enforcement of the guarantee, the Guarantors shall, upon the Trustee's request, enter into good faith negotiations on possible amendments to this Clause to the extent such provisions are, or are not required anymore to protect the managing directors (*Geschäftsführer*) (or other representative's) of the Guarantor(s) from the risk of personal liability arising from the enforcement of the guarantee.

Notwithstanding anything to the contrary in this Agreement, this Clause and any rights and/or obligations arising out of it shall be governed by, and construed in accordance with, German law."

#### *AG Limitation Language*

As a general rule, Section 57 German Stock Corporation Act (*Aktiengesetz*) prohibits the disbursement of the deposits to the stockholders (*Verbot der Einlagenrückgewähr*). In addition, pursuant to Section 71a German Stock Corporation Act (*Aktiengesetz*) the relevant German public limited liability company (*Aktiengesellschaft*) may not grant any loan or grant and security to a third-party for purposes of the acquisition of the stock in such German public limited liability company (*Aktiengesellschaft*). Any agreement in such respect is void.

Therefore, in order to enable German subsidiaries to issue guarantees or create security interests to secure liabilities of a direct or indirect parent or sister company without the risk of violating Section 57 German Stock Corporation Act (*Aktiengesetz*) and/or Section 71 a German Stock Corporation Act (*Aktiengesetz*), it is standard market practice for indentures, credit agreements, guarantees and security documents to contain "limitation language" in relation to subsidiaries in the legal form of a German public limited liability company (*Aktiengesellschaft*). Pursuant to such limitation language, the beneficiaries of the guarantees or the security interests agree to enforce the guarantees or the security interests against the German subsidiary only to the extent that such enforcement does not lead to a violation of Section 57 German Stock Corporation Act (*Aktiengesetz*) and/or Section 71 a German Stock Corporation Act (*Aktiengesetz*). Accordingly, the Senior Secured Notes Guarantee, the Indenture and the Security Documents relating to the Senior Secured Notes Collateral provided by the German Notes Guarantors contains or will contain, respectively, such limitation language and therefore the enforcement of the Senior Secured Notes Guarantees and the Indenture is limited in the manner described below. This could lead to a situation in which the respective guarantee or security granted by the relevant German Notes Guarantor cannot be enforced at all. In particular, STADA, which, together with the other Guarantors, provided a Senior Secured Notes Guarantee under the Senior Secured Notes following the occurrence of the control date on March 20, 2018, is incorporated in Germany in the form of a German public limited liability company (*Aktiengesellschaft*). Since all the Guarantors are direct or indirect subsidiaries of STADA, all limitations applicable to a German public limited liability company (*Aktiengesellschaft*) (whether by virtue of law or contractual limitation language) will consequently also apply to such subsidiaries even if incorporated in a legal form other than a German public limited liability company (*Aktiengesellschaft*). See also "Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—Corporate benefit, financial assistance laws, capital maintenance and other limitations on the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral may adversely affect the validity and enforceability of the Senior Secured Notes Guarantees and the Senior Secured Notes Collateral."

The limitation language for any public limited liability company (*Aktiengesellschaft*) incorporated into the relevant Notes Documents, in particular in the security documents, is substantially in the form as follows:

- (a) "Any guarantee or any liability, indemnity or other payment obligation (the "Guarantee") of a Guarantor which is a public limited liability company under German law (*Aktiengesellschaft*) (an "AG Guarantor") or by any Guarantor that is a subsidiary of that AG Guarantor shall not be enforced to the extent such Guarantee secures or relates to liabilities which are owed by direct or indirect shareholders of that AG Guarantor or subsidiaries of such shareholders (such subsidiaries not to include the AG Guarantor and the subsidiaries of that AG Guarantor) if the relevant AG Guarantor is not party to a domination and/or profit and loss pooling agreement (*Beherrschungs- und/oder Gewinnabführungsvertrag*) as the dominated party with a direct shareholder as the dominating party.
- (b) If a domination and/or profit and loss pooling agreement (*Beherrschungs- und/oder Gewinnabführungsvertrag*) is in force between the relevant AG Guarantor and a direct shareholder (with the direct shareholder as dominating party) any Guarantee granted by such AG Guarantor or by any subsidiary of that AG Guarantor under this Agreement shall be enforceable except that it shall not be enforceable (*vollstreckbar*) if and to the extent (i) the payment by the AG Guarantor or by a

subsidiary of that AG Guarantor in respect of those guarantees which secure liabilities which are owed by direct or indirect shareholders of that AG Guarantor or subsidiaries of such shareholders (such subsidiaries not to include the AG Guarantor and the subsidiaries which are also subsidiaries of that AG Guarantor) will, or must be expected to, result in an annual loss to that AG Guarantor and (ii) such annual loss would not be, or cannot be expected to be, compensated for by a compensation claim under the relevant domination and/or profit and loss pooling agreement (*Beherrschungs- und/oder Gewinnabführungsvertrag*) that can be accounted for in the balance sheet of that AG Guarantor at full value (*vollwertig*), unless the mere existence of a domination and/or profit and loss pooling agreement (*Beherrschungs- und/oder Gewinnabführungsvertrag*) between the relevant AG Guarantor and a direct shareholder (with the direct shareholder as dominating party) leads to the inapplicability of Section 57 sub section 1 of the German Stock Corporation Act (*AktG*) in which case sub paragraphs (i) and (ii) shall not be applicable and which shall be deemed to be the case if so explicitly confirmed with reasons (and not, for example, as an obiter dictum) by the Federal Court of Justice (*Bundesgerichtshof*) in a third-party case.

- (c) The validity and enforcement of any Guarantee granted by an AG Guarantor shall not be limited to the extent any payment under the Guarantee demanded by a finance party from the relevant AG Guarantor is covered (*gedeckt*) by a fully valuable and recoverable consideration or recourse claim (*vollwertiger Gegenleistungs oder Rückgewähranspruch*) of the AG Guarantor against the affiliate whose obligations are secured by the relevant Guarantee and would therefore not lead to a violation of Section 57 sub section 1 of the German Stock Corporation Act (*AktG*), unless this exception would lead to a violation of Section 71a of the German Stock Corporation Act (*AktG*).
- (d) For the avoidance of doubt, the validity and enforceability of any Guarantee granted by an AG Guarantor or of any subsidiary of that AG Guarantor in respect of any borrowing liabilities which are owed by that AG Guarantor or any of its subsidiaries shall not be limited under paragraphs (a) and (b) above.
- (e) The validity and enforcement of any Guarantee granted by an AG Guarantor or of any subsidiary of that AG Guarantor shall not be limited under paragraphs (a) and (b) above in an amount equal to the amount drawn under the credit facilities (the “Drawn Amount”) if and to the extent such Drawn Amount is applied for the repayment, prepayment or other refinancing of any financial indebtedness of such AG Guarantor or subsidiary of such AG Guarantor, provided that exception does not lead to a violation of Section 57 of the German Stock Corporation Act (*AktG*).
- (f) The restrictions set out in paragraph (b) above do not affect the rights of the finance parties to claim any outstanding amount again at a later point in time if and to the extent paragraph (b) above would allow such claim at that later point.
- (g) For the avoidance of doubt, the limits set out in paragraphs (a) and (b) above shall no further apply from the date the AG Guarantor is no longer incorporated as a public limited liability company (*Aktiengesellschaft*) unless such Guarantor is a subsidiary of another AG Guarantor in which case paragraphs (a) and (b) above shall apply in a way that the Guarantor shall be treated as a subsidiary of that other AG Guarantor in accordance with paragraphs (a) and (b) above. In such event, the limits set out in paragraphs (a) and (b) above shall not apply to the Guarantee granted by that Guarantor in respect of any liabilities which are owed by that other AG Guarantor or any of its subsidiaries.

Any guarantee, indemnity or upstream benefit granted under any Finance Document by STADA or any of its subsidiaries in respect of liabilities of its current or any future direct or indirect shareholder(s) (upstream) or a Subsidiary of such shareholder (but excluding any direct or indirect subsidiary of STADA) (cross stream) will in any case take effect not earlier than immediately after the occurrence of the Control Date (as defined under “*Description of the Senior Secured Notes*”).

- (h) German terms in this Clause (including any reference to German statutory provisions) shall be construed in accordance with German law.”

#### *General Comments regarding German Limitation Language*

German capital maintenance, liquidity maintenance and financial assistance rules (including with respect to Sections 30, 31 and 64 sentence 3 GmbH and Sections 57, 71a and 92(2) sentence 3 AktG), are subject to evolving case law. We cannot assure you that future court rulings may not further limit the access of shareholders to assets of its subsidiaries constituted in the form of, as applicable, an AG, a GmbH or a GmbH & Co. KG, which can negatively affect the ability of the German Notes Guarantors to make

payments on the Additional Notes or the Senior Secured Notes Guarantees or the enforceability of the Senior Secured Notes Guarantees, the Indenture and the Security Documents relating to the Senior Secured Notes Collateral (i.e. the share pledges and any other security interest) provided by the German Notes Guarantors.

In addition, it cannot be ruled out that the case law of the German Federal Supreme Court (*Bundesgerichtshof*) regarding “destructive interference” (*existenzvernichtender Eingriff*) (i.e., a situation in which a shareholder deprives a GmbH of the liquidity necessary for it to meet its own payment obligations) may be applied by courts with respect to the enforcement of a guarantee or other collateral granted by the German Notes Guarantors. In such a case, the amount of proceeds to be realized in an enforcement process may be reduced, even to nil. Moreover, according to a decision of the German Federal Supreme Court (*Bundesgerichtshof*), a security agreement may be void due to tortious inducement of breach of contract if a creditor knows about the stressed financial situation of the debtor and anticipates that the debtor will only be able to grant collateral by disregarding the vital interests of its other business partners. It cannot be ruled out that German courts may apply this case law with respect to the granting of the Senior Secured Notes Guarantee or any Senior Secured Notes Collateral by the German Notes Guarantors (including in the legal form of an AG).

Furthermore, the beneficiary (e.g., a holder of the Additional Notes) of a transaction qualifying as a repayment of the stated share capital of a grantor of a guarantee or security interest, as applicable, (e.g., the enforcement of such guarantee or security interest) could moreover become personally liable under exceptional circumstances. The German Federal Supreme Court (*Bundesgerichtshof*) ruled that this could be the case if, for example, the creditor were to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of *bonos mores* (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the grantor of the guarantee or provider of security interest is close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

#### *Parallel Debt; Security Interests*

Under German law, certain “accessory” security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor of the secured claim be the same person. Such accessory security interests (*akzessorische Sicherungsrechte*) cannot be held on behalf of third parties who do not (yet) hold the secured claim, will automatically lapse to the extent a secured claim is settled, discharged or novated, and may not be assigned independently, but will automatically follow the claims they secure in case the relevant secured claim is assigned. The holders of interests in the Additional Notes from time to time will not be party to the Security Documents. In order to permit the holders of the Additional Notes from time to time to benefit from pledges granted to the Security Agent under German law, the Intercreditor Agreement provides for the creation of a “parallel debt.” Pursuant to the creation of the parallel debt, the Security Agent has its own separate and independent claim equal to each amount payable by each obligor under, in particular, the Additional Notes. The pledges governed by German law will directly and exclusively (to the extent the Additional Notes are concerned) secure the parallel debt rather than the obligations under the Additional Notes or the holders of the Additional Notes directly. The validity of the parallel debt concept and of the pledges granted under German law to secure such parallel debt has not been tested under German law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by German law. Therefore, the ability of the Security Agent to enforce the Senior Secured Notes Collateral may be restricted. In addition, holders of the Additional Notes bear some risk associated with a possible insolvency or bankruptcy of the Security Agent. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes.*”

German law does not generally permit the appropriation of pledged assets by the pledgee upon enforcement of the pledge. The enforcement of a share pledge under German law usually requires the sale of the asset constituting the collateral through a formal process involving a public auction to which certain waiting periods and notice requirements apply. Under German law, it is unclear whether the security interest in the collateral gives the Security Agent the right to prevent other creditors of the entities having granted such security from foreclosing on and realizing the asset constituting the collateral. Some courts have held that certain types of security interests only give their holders priority (according to their ranking) in the distribution of any proceeds from the realization of the asset constituting the collateral and no right to intervene (i.e., the right to request the court to impose a stay on proceedings initiated by other creditors).

Under the German Insolvency Code (*Insolvenzordnung*), an insolvency administrator or in the event that debtor in possession status has been granted, the trustee (*Sachwalter*) may also challenge (*anfechten*) transactions, performances or other acts that are deemed detrimental to insolvency creditors and were effected prior to the commencement of insolvency proceedings during applicable avoidance periods. The administrator's or the trustee's right to challenge transactions can, depending on the circumstances, extend to transactions during the ten year period prior to the filing of the petition for commencement of insolvency proceedings. On March 29, 2017, the German legislator passed an act for the improvement of legal certainty concerning clawback pursuant to the German Insolvency Code and the German Avoidance Act (*Gesetz zur Verbesserung der Rechtssicherheit bei Anfechtungen nach der Insolvenzordnung und nach dem Anfechtungsgesetz*), which entered into force on April 5, 2017 (subject to certain transitional provisions). The amendments to the German Insolvency Code (*Insolvenzordnung*) and the German Avoidance Act (*Anfechtungsgesetz*) concern, *inter alia*, the provisions on avoidance for intentionally disadvantaging third-party creditors (*Vorsatzanfechtung*), cash transactions (*Bargeschäfte*) and interest accruing on avoidance claims.

In the event of insolvency proceedings with respect to us, which would be based on and governed by the insolvency laws of Germany, the payment of any amounts to the holders of the Additional Notes as well as the granting of collateral for or providing credit support for the benefit of the Additional Notes could be subject to potential challenges by an insolvency administrator or, as the case may be, trustee under the rules of avoidance as set forth in the German Insolvency Code (*Insolvenzordnung*). In case the validity or enforceability of the Additional Notes or any collateral in favor of the Additional Notes is challenged successfully, the holder of the Additional Notes may not be able to recover any amounts under the Additional Notes or the relevant collateral. If payments have already been made under the Additional Notes or collateral, any amounts received from a transaction that had been challenged would have to be repaid to the insolvency estate. In this case, holders of the Additional Notes would only have a general unsecured claim under the Additional Notes without preference in insolvency proceedings.

In particular, an act (*Rechtshandlung*) or a transaction (*Rechtsgeschäft*) (which terms also include the provision of security or the repayment of debt) may be avoided in the following cases, as recently amended by the act to improve legal certainty with respect to avoidance claims under the German Insolvency Code and the German Code on Avoidance (*Gesetz zur Verbesserung der Rechtssicherheit bei Anfechtungen nach der Insolvenzordnung und dem Anfechtungsgesetz*) which became effective on April 5, 2017:

- (a) any act granting an insolvency creditor, or enabling an insolvency creditor to obtain, security (including a guarantee) (*Sicherung*) or satisfaction (*Befriedigung*) if such act was taken (i) during the last three months prior to the filing of a petition for the commencement of insolvency proceedings, if the debtor was illiquid (*zahlungsunfähig*) at the time such act was taken and the creditor knew of such illiquidity (or of circumstances that imperatively suggest that the debtor was illiquid) at such time, or (ii) after the filing of the petition for the opening of insolvency proceedings, if the creditor knew of the debtor's illiquidity or the filing of such petition (or of circumstances imperatively suggesting such illiquidity or filing); whereby in each case an affiliated party shall be presumed to have been aware of the debtor's insolvency or of the filing to open insolvency proceedings;
- (b) any act granting an insolvency creditor, or enabling an insolvency creditor to obtain, security (including a guarantee) (*Sicherung*) or satisfaction (*Befriedigung*) to which such creditor was not entitled or which was granted or obtained in a form in which or at a time at which such creditor was not entitled to such security or satisfaction, if (i) such act was taken during the last month prior to the filing of the petition for the commencement of insolvency proceedings or after such filing, (ii) such act was taken during the second or third month prior to the filing of the petition and the debtor was illiquid at such time or (iii) such act was taken during the second or third month prior to the filing of the petition for the opening of insolvency proceedings and the creditor knew at the time such act was taken that such act was detrimental to the other insolvency creditors (or had knowledge of circumstances that imperatively suggest such detrimental effect); whereby in each case an affiliated party shall be presumed to have been aware of the detrimental nature of such transaction for the other creditors;
- (c) any transaction by the debtor that is directly detrimental to the insolvency creditors or by which the debtor loses a right or the ability to enforce a right or by which a proprietary claim against a debtor is obtained or becomes enforceable, provided it was entered into (i) during the three months prior to the



filing of the petition of the commencement of insolvency proceedings and the debtor was illiquid at the time of such transaction and the counterparty to such transaction knew of the illiquidity at such time or (ii) after the filing of the petition for the commencement of insolvency proceedings and the counterparty to such transaction knew of either the debtor's illiquidity or such filing at the time of the transaction; whereby in each case an affiliated party shall be presumed to have been aware of the debtor's illiquidity or of the filing to open insolvency proceedings;

- (d) any act by the debtor without (adequate) consideration (e.g., whereby a debtor grants security (including a guarantee) for a third-party debt, which might be regarded as having been granted gratuitously (*unentgeltlich*)), if it was effected in the four years prior to the filing of the petition for the commencement of insolvency proceedings;
- (e) any act performed by the debtor (i) during the ten years prior to the filing of the petition for the commencement of insolvency proceedings or at any time after the filing with the intent to prejudice the insolvency creditors and the other party knew of such intention at the time of such act, with such knowledge being presumed if the beneficiary knew that the debtor's illiquidity was imminent and that the transaction disadvantaged the other creditors (except for acts granting an insolvency creditor, or enabling an insolvency creditor, to obtain security or satisfaction to which such creditor was entitled, in which case such knowledge (solely) being presumed if such creditor knew that the debtor was illiquid and that the transaction disadvantaged the other creditors), (ii) except for such acts granting an insolvency creditor, or enabling an insolvency creditor, to obtain security (*Sicherung*) or satisfaction (*Befriedigung*) (whether or not it was granted or obtained in a form or at a time to which or at which such creditor was entitled to such security or satisfaction), which may only be avoided if they were effected in the four years prior to the filing of the petition for the commencement of insolvency proceedings or at a time after the filing;
- (f) any non-gratuitous contract (*entgeltlicher Vertrag*) concluded between the debtor and an a related party (*nahestehende Person*) which directly operates to the detriment of the creditors can be challenged unless such contract was concluded earlier than two years prior to the filing of the petition for the opening of insolvency proceedings or the other party had no knowledge of the debtor's intention to disadvantage its creditors as of the time the contract was concluded; in relation to corporate entities, the term 'related party' includes, subject to certain limitations, members of the management or supervisory board, general partners and shareholders owning more than 25% of the debtor's share capital, persons or companies holding comparable positions that give them access to information about the economic situation of the debtor, and other persons that are spouses, relatives or members of the household of any of the foregoing persons;
- (g) any act that provides security (including a guarantee) (*Sicherung*) or satisfaction (*Befriedigung*) for a shareholder loan made to the debtor or an economically similar claim if (i) in the case of the provision of security, the act took place during the ten years prior to the filing of the petition for the commencement of insolvency proceedings or after the filing of such petition, or (ii) in the case of satisfaction, the act took place during the last year prior to the filing of the petition for the opening of insolvency proceedings or after the filing of such petition. It being understood, that the regulation for shareholder loans does not apply (i) to shareholders which own 10% or less of the shares or interest and are not engaged in management and (ii) until the successful restructuring of the debtor in case a creditor for the first time acquires shares during over indebtedness, illiquidity or imminent illiquidity for the purpose of restructuring the debtor; and
- (h) any act whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third-party if (i) the transaction was effected in the last year prior to the filing of a petition for the commencement of insolvency proceedings or thereafter and (ii) a shareholder of the debtor had granted security or was liable as a guarantor or surety provider (*Garant oder Bürge*) (in which case the shareholder has to compensate the debtor for the amounts paid (subject to further conditions)).

In this context, "knowledge" is generally deemed to exist if the other party is aware of the facts from which the conclusion must be drawn that the debtor (e.g., a German Notes Guarantor) was unable to pay its debts generally as they fell due, that a petition for the opening of insolvency proceedings had been filed, or that the act was detrimental to, or intended to prejudice, the insolvency creditors, as the case may be. A person is deemed to have knowledge of the debtor's intention to prejudice the insolvency creditors if it knew of the debtor's imminent illiquidity and that the transaction prejudiced the debtor's creditors. If the relevant act granted an insolvency creditor, or enabled an insolvency creditor to obtain, security (including a guarantee) (*Sicherung*) or satisfaction (*Befriedigung*) in a form in which and at a time at which such



creditor was entitled to such security or satisfaction (*kongruente Deckungshandlung*), the words “imminent illiquidity” (*drohende Zahlungsunfähigkeit*) in the preceding sentence have to be replaced by “actual illiquidity” (*eingetretene Zahlungsunfähigkeit*). If an insolvency creditor concluded a payment agreement (*Zahlungsvereinbarung*) with, or granted other forms of deferred payment terms (*Zahlungserleichterung*) to, the debtor, there is a rebuttable presumption that the insolvency creditor did not have knowledge of the illiquidity of the debtor at the time of such act. With respect to a “related party,” there is a general statutory presumption that such party had “knowledge.” Any amounts obtained from transactions that have been challenged would have to be repaid to the insolvency estate.

Furthermore, even in the absence of an insolvency proceeding, a third-party creditor who has obtained an enforcement order (*Vollstreckungstitel*) but has failed to obtain satisfaction of its enforceable claims by a levy of execution, under certain circumstances, has the right to void certain transactions, such as the payment of debt and the granting of security pursuant to the German Avoidance Act (*Anfechtungsgesetz*). The conditions for avoidance under the German Avoidance Act differ to a certain extent from the above described rules under the German Insolvency Code and the avoidance periods are calculated from the date when a creditor exercises its rights of avoidance in the courts.

The German restructuring laws may be subject to further amendments in near future. On June 20, 2019, the Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency) (the “Restructuring Directive”) has been adopted. The Restructuring Directive was published in the Official Journal of the European Union on June 26, 2019, and the member states have approximately two years to transpose the substantive parts of the Restructuring Directive into their national legislation, although a one-year extension can be granted. The Restructuring Directive aims to put in place key principles for all member states on effective preventive restructuring and second chance frameworks, and measures to make all types of insolvency procedures more efficient by reducing their length and associated costs and improving their quality. The key feature of the Restructuring Directive is the introduction of a preventive restructuring framework. The Restructuring Directive sets out minimum EU standards to be applied by the member states (i.e., minimum harmonization). Whereas certain features of the Restructuring Directive need to be transposed into national legislation, the Restructuring Directive leaves a large degree of discretion regarding the implementation of certain other features. Most notably, the Restructuring Directive provides for a framework pursuant to which claims of the relevant creditors may be modified in a restructuring plan by majority vote with a majority of not more than 75% of the amount of claims in each class and where applicable a majority by numbers and against the voting of a single creditor in a pre-insolvency restructuring procedure, i.e. outside formal insolvency proceedings. The Restructuring Directive also provides for cross-class cram-down, i.e. even if the creditors of one class voting on the restructuring plan did not consent to the restructuring plan with the required majority, the restructuring plan might still be adopted and take effect for the dissenting creditors. Further, the Restructuring Directive provides for a stay on enforcement, which needs to be transposed into national legislation. The implementation of the Restructuring Directive into national legislation might also include priority ranking for new financing.

## **England and Wales**

Certain Guarantors are incorporated under the laws of England and Wales (an “English Guarantor”), therefore any insolvency proceedings initiated by or against such Guarantors would likely be based on English insolvency laws.

The United Kingdom, of which England forms a part, is a member of the European Union and, as such, the Recast Regulation on Insolvency Proceedings will apply to any insolvency proceedings affecting the English Guarantors. Pursuant to the Recast Regulation on Insolvency Proceedings, where a company incorporated under English law has its centre of main interests (“COMI”) in England, the English courts will have jurisdiction to open main insolvency proceedings in respect of that company and any such proceedings will be recognized and have effect throughout the European Union. If an English Guarantor has its COMI in a member state of the European Union other than England and Wales, then the main insolvency proceedings for that English Guarantor may be opened in the member state in which its COMI is located and be subject to the laws of that member state. The point at which this issue falls to be determined is at the time that the relevant insolvency proceedings are opened. In that case, the English courts (or the courts of other parts of the United Kingdom) will only have jurisdiction to open secondary insolvency proceedings with respect to the English Guarantors if they are found to have an establishment

in England and the effects of those proceedings will be limited to the assets of the English Guarantors located in England.

The UNCITRAL Model Law on Cross-border Insolvency (the “Model Law”) (which has been implemented in the United Kingdom by the Cross-border Insolvency Regulations 2006), provides for recognition of insolvency proceedings in other jurisdictions as either foreign main or foreign non-main proceedings. English insolvency proceedings in relation to an English Guarantor may be recognized as foreign main proceedings in other jurisdictions which have implemented the Model Law if the English Guarantor has their respective COMI in England. If the English Guarantor is found to have its COMI in a place other than England, the English insolvency proceedings may only be afforded recognition as foreign non-main proceedings provided that the English Guarantor is found to have an establishment in England (meaning that it has a place of operations in England and carries out non-transitory economic activities with human means and assets or services). In that case, the main insolvency proceedings with respect to the English Guarantor will occur in the place in which the English Guarantor is found to have its COMI.

To the extent that the Cross-border Insolvency Regulations 2006 conflict with an obligation of the United Kingdom under the Recast Regulation on Insolvency Proceedings, the requirements of the Recast Regulation on Insolvency Proceedings will prevail.

English insolvency law is different to the laws of the United States and other jurisdictions with which investors may be familiar and, in the event that any English Guarantor experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

Formal insolvency proceedings under the laws of England and Wales may be initiated in a number of ways, including by a company or a creditor making an application for administration in court, a company or the holder of a “qualifying floating charge” (discussed below) making an application for administration out of court, or by a creditor filing a petition to wind up a company or a company resolving to do so (in the case of a liquidation). A company may be wound up if it is unable to pay its debts, and may be placed into administration if it is, or is likely to become, unable to pay its debts, and the administration is reasonably likely to achieve one of three statutory purposes.

Under the Insolvency Act 1986, as amended (the “Insolvency Act”), a company is insolvent if it is “unable to pay its debts.” Pursuant to section 123 of the Insolvency Act, a company is deemed unable to pay its debts in certain circumstances, including, among others, the following: (i) if a creditor to whom the company is indebted in a sum exceeding £750 then due has served a statutory demand on the company requiring the company to pay the sum so due and the company has for three weeks thereafter failed to pay, secure or compound the sum; (ii) if it is proved to the satisfaction of the court that the company is unable to pay its debts as they fall due; or (iii) if it is proved to the satisfaction of the court that the value of the company’s assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities.

The following description of the issues which may arise on an English insolvency is prepared on the assumption that the English Guarantors are subject only to one insolvency proceeding which is governed by English law and which has not been recognized in any other jurisdiction.

The application of these laws could adversely affect investors and their ability to enforce their rights and therefore may limit the amounts that investors may receive in an insolvency of an English company.

Moreover, it remains to be seen what impact the UK vote to leave the European Union will have on the regulatory environment in the European Union and the United Kingdom, and on the applicability of EU law (including the Recast Regulation on Insolvency Proceedings) in the United Kingdom.

### ***Fixed and Floating Charges***

Fixed charge security has a number of advantages over floating charge security: (a) an administrator appointed to a company which granted the floating charge can dispose of floating charge assets for cash or collect receivables charged by way of floating charge and use the proceeds and/or cash subject to a floating charge, to meet administration expenses (which can include the costs of continuing to operate the charging company’s business while in administration) in priority to the claims of the floating charge holder; (b) a fixed charge over assets, even if created after the date of a floating charge over the assets, may have priority as against a floating charge over the same assets provided the floating charge has not crystallized at the time the fixed charge is granted and the fixed charge holder had no notice of any restrictions applicable to the creation of fixed charge security; (c) general costs and expenses (including the liquidator’s

remuneration) properly incurred in a winding up are payable out of floating charge assets to the extent the assets of the company available for creditors generally are otherwise insufficient to meet them (subject to certain restrictions for the costs of litigation) in priority to floating charge claims; (d) until the floating charge security crystallizes, a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of its business, meaning that such assets can be effectively disposed of by the charging company so as to give a third-party good title to the assets free of the floating charge; (e) floating charge security is subject to certain challenges under English insolvency law; and (f) floating charge security is subject to the claims of preferential creditors (such as occupational pension scheme contributions and salaries owed to employees (subject to a cap per employee) and holiday pay owed to employees) and, where the floating charge is not a “security financial collateral arrangement” (generally, security over cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003 as amended, to the claims of unsecured creditors in respect of a ring fenced amount of the proceeds.

With effect from April 6, 2020, and as a result of legislative changes introduced in Finance Bill 2019–2020 to amend section 386 and Schedule 6 to the Insolvency Act 1986 and section 129 and Schedule 3 of the Bankruptcy (Scotland) Act 2016, HM Revenue and Customs (“HMRC”) will constitute a preferential creditor of an insolvent company in respect of certain amounts collected by the insolvent company on behalf of HMRC and will be treated accordingly in the event of a company’s insolvency.

Searches made at the Registrar of Companies to ascertain what charges have been registered against the English Guarantors are not conclusive as to whether any security interests exist over any assets of the English Guarantors or the respective priorities of any security interests since (i) not all security interests created by a company are required to be registered at the Registrar of Companies and (ii) a charge may have been lodged with the Registrar of Companies, prior to the lodging of a security interest created by a company at the Registrar of Companies but may not yet have been processed and may not therefore appear on the company’s file.

Under English law there is a possibility that a court could recharacterize as floating charges any security interests expressed to be created by a security document as fixed charges where the chargee does not have the requisite degree of control over the relevant chargor’s ability to deal with the relevant assets and the proceeds thereof or does not exercise such control in practice as the description given to the charges in the relevant security document as fixed charges is not determinative. Where the chargor is free to deal with the secured assets without the consent of the chargee prior to crystallization, the court is likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

#### *Administration, Administrative Receivership and Floating Charges*

The relevant English insolvency statutes empower English courts to make an administration order in respect of an English company in certain circumstances. An administrator can also be appointed “out of court” (i.e., without the need for a court order) by the company, its directors or the holder of a qualifying floating charge and different procedures apply according to the identity of the appointer. Separately, the security document may state that it gives the secured creditor the right to appoint an administrative receiver.

In order to constitute a qualifying floating charge, the floating charge must be created by an instrument which states that the relevant statutory provision (paragraph 14 of Schedule B1 to the Insolvency Act) applies to it or which purports to empower the holder to appoint an administrator of the company (or to make an appointment which would be the appointment of an administrative receiver). A creditor will be the holder of a qualifying floating charge if it holds a floating charge or charges which relate to the whole or substantially the whole of the English Guarantors’ property or charges and other form of security which together relate to the whole or substantially the whole of the English Guarantors’ property and at least one such security interest is a qualifying floating charge. Whether the assets that are subject to the floating charges and other security will constitute substantially the whole of the English Guarantors’ assets at the time that the floating charges are enforced will be a question of fact at that time.

The most relevant exemption from the prohibition on the appointment of an administrative receiver is the exemption relating to capital markets arrangements. This exemption provides that the appointment of an administrative receiver is permitted if it is to be made pursuant to an agreement which is or forms part of a capital market arrangement under which a party incurs, or when the agreement was entered into was

expected to incur, a debt of at least £50,000,000 under the arrangement over its life and the arrangement involves the issue of a “capital markets investment.”

An administrator, receiver (including administrative receiver) or liquidator of the English Guarantors would be required to ring fence a certain percentage of the proceeds of realization of the English Guarantors’ assets subject to the floating charge for the benefit of unsecured creditors (after making full provision for preferential creditors and expenses out of floating charge realizations) (the “Prescribed Part”). Under current law, this applies to 50% of the first £10,000 of net floating charge realizations and 20% of the remainder over £10,000, with a maximum aggregate cap of £600,000. The Prescribed Part must be made available to unsecured creditors unless the cost of doing so would be disproportionate to the resulting benefit to the creditors. The Prescribed Part will not be available for any shortfall claims of secured creditors. Whether the assets that are subject to the floating charges and other security will constitute substantially the whole of the relevant English Guarantors’ assets at the time that the floating charges are enforced will be a question of fact at the time.

An administrator may dispose of or take any action in respect of any property of the English Guarantors subject to a floating charge as if it were not subject to the charge, although the floating charge holder shall have the same priority in respect of proceeds of the disposal. The administrator may also dispose of property which is the subject of a fixed charge, subject to making an application to court and the court finding that the disposal of the property would be likely to promote the purpose of the administration. Any court order will be subject to a condition that the net proceeds of disposal of the property, and any additional money required to be added to those net proceeds so as to produce the amount determined by the court to be the net amount which would be realized on a sale of the property at market value, be applied toward discharging the sums secured by the fixed charge.

#### ***Statutory Moratorium on Enforcement***

If the English Guarantors were to go into administration under English law, the rights of the Trustee or holders of the Senior Notes to institute any legal proceedings against the English Guarantors would be restricted. There is a general moratorium on the enforcement of security and other legal process when a company is in administration. No step may be taken by any person to enforce security over the property of a company in administration without the consent of the administrator or the permission of the court. Furthermore, prior to the appointment of an administrator, an interim moratorium will automatically arise once an application to court to appoint an administrator has been lodged or notice of an intention to make an appointment out of court has been given. However, if an administrative receiver has already been appointed when the application for administration is made, the moratorium will only take effect when the person by or on behalf of whom the administrative receiver was appointed consents to the making of the administration order. Any previously appointed administrative receiver must vacate office upon an administration order taking effect. Where the company is already in administration no other receiver may be appointed. Certain creditors of a company in administration may be able to enforce their security over that company’s property notwithstanding the statutory moratorium. This is by virtue of the disapplication of the moratorium in relation to a security financial collateral agreement. To the extent that the English Guarantors satisfy two or more of the requirements for being a “small company” under section 382 of the Companies Act 2006, they may also be eligible for a moratorium if implementing a company voluntary arrangement. Such a company will not, however, be eligible for such a moratorium if it falls within one of a number of exemptions. The most relevant exemption is that relating to capital markets arrangements. This exemption provides that a company is excluded from being eligible for a moratorium if, on the date of filing, it is a party to an agreement which is or forms part of a capital markets arrangement under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10,000,000 under the arrangement and the arrangement involves the issue of a “capital market investment.”

The making of a winding up order or the appointment of a provisional liquidator in respect of the English Guarantors would have the effect of initiating a moratorium upon actions or proceedings against the English Guarantors, although the moratorium would not prevent the enforcement of security or a guarantee where this can be effected without the need for court intervention. If realizations from the enforcement of the security exceed the value of the amounts secured, the excess would be required to be paid over to the liquidator and would form part of the assets of the English Guarantors to be distributed by the liquidator. To the extent that the security realized does not cover the whole of the secured amount, the holders of the Senior Notes would be entitled to prove for the unsecured balance of those amounts alongside unsecured creditors.



### *Scheme of Arrangement*

Although it is not an insolvency proceeding, pursuant to Part 26 of the Companies Act 2006, the English courts have jurisdiction to sanction a scheme of arrangement that effects a compromise of a company's liabilities between a company and its creditors (or any class of its creditors). An English Guarantor may be able to pursue a scheme in respect of its financial liabilities. In addition, a foreign Guarantor which is liable to be wound up under the Insolvency Act and has a "sufficient connection" to England and Wales could also pursue a scheme. In practice, a foreign company is likely to satisfy the first limb of this test and the second limb has been found to be satisfied where, amongst other things, the company's COMI is in England, the company's finance documents are English law governed, or the company's finance documents have been amended in accordance with their terms to be governed by English law. Ultimately, each case will be considered on its particular facts and circumstances so previous cases will not necessarily determine whether or not any of the grounds of the second limb are satisfied in the present case.

Before the court considers the sanction of a scheme of arrangement at a hearing where the fairness and reasonableness of the scheme will be considered, affected creditors will vote on the proposed compromise or arrangement in respect of their claims in a single class or in a number of classes, depending on the rights of such creditors that will be affected by the proposed scheme and any new rights that such creditors are given under the scheme. Such compromise can be proposed by the company or its creditors. If 50% or more by number and 75% or more by value of those creditors present and voting at the meeting(s) of each class of creditors vote in favor of the proposed scheme, irrespective of the terms and approved thresholds contained in the finance documents, then that scheme will (subject to the sanction of the court) be binding on all affected creditors, including those affected creditors who did not participate in the vote and those who voted against the scheme. The scheme then needs to be sanctioned by the court at a sanction hearing where the court will review the fairness of the scheme and consider whether it is reasonable. The court has the discretion as to whether to sanction the scheme as approved, make an order conditional upon modifications being made or reject the scheme.

### *Grounds for Challenge of Guarantees and Security*

There are circumstances under English insolvency law in which the granting by an English Guarantor of guarantees and security granted by an English company can be challenged. The following potential grounds for challenge may apply under English law to the guarantee of the English Guarantor and the security interests granted by an English company.

#### *Transaction at an Undervalue*

Under English insolvency law, a liquidator or an administrator of an English Guarantor could apply to the court for an order to set aside a security interest (in certain cases) or a guarantee granted by the English Guarantor (or give other relief) on the grounds that the creation of such security interest or guarantee constituted a transaction at an undervalue. The grant of a security interest or guarantee will only be a transaction at an undervalue if the transaction constitutes a gift or is made on terms that provide that the English Guarantor receives no consideration or if the English Guarantor receives consideration of significantly less value, in money or in money's worth, than the consideration given by such English Guarantor. For a challenge to be made, the guarantee or security must be granted within a period of two years ending with the onset of insolvency (as defined in section 240 of the Insolvency Act). In addition the English Guarantor must have been "unable to pay its debts" at the time that it granted the guarantee or security or became "unable to pay its debts" as a result. An English Guarantor will be "unable to pay its debts" if a statutory demand for over £750 is served on the English Guarantor and remains unsatisfied for three weeks or an execution or other process issued on a judgment, decree or order of a court in favor of a creditor is returned unsatisfied in whole or in part or if it is proved to the court's satisfaction that the English Guarantor is unable to pay its debts as they fall due or that the value of the English Guarantor's assets is less than the amount of its liabilities (taking into account contingent and prospective liabilities). A court will not make an order in respect of a transaction at an undervalue if it is satisfied that the English Guarantor entered into the transaction in good faith and for the purpose of carrying on its business and that, at the time it did so, there were reasonable grounds for believing the transaction would benefit the English Guarantor. Subject to this, if the court determines that the transaction was a transaction at an undervalue the court can make such order as it thinks fit to restore the position to what it would have been if the transaction had not been entered into (which could include reducing payments under the guarantees or setting aside any security interests or guarantees although there is protection for a third-party that benefits from the transaction and has acted in good faith and for value). In any challenge proceedings, it is



for the administrator or liquidator to demonstrate that the English Guarantor was unable to pay its debts unless a beneficiary of the transaction was a “connected person” (as defined in the Insolvency Act), in which case there is a presumption that the English Guarantor was unable to pay its debts and the connected person must demonstrate that the English Guarantor was not unable to pay its debts at the time of the transaction.

### *Preference*

Under English insolvency law, a liquidator or administrator of an English Guarantor could apply to the court for an order to set aside a security interest or a guarantee granted by such English Guarantor (or give other relief) on the grounds such security interest or such guarantee constituted a preference. The grant of a security interest or guarantee is a preference if it has the effect of placing a creditor (or a surety or guarantor of the English Guarantor) in a better position in the event of the English Guarantor’s insolvent liquidation than if the security interest or guarantee had not been granted. For a challenge to be made, the decision to prefer must be made within the period of six months ending with the onset of insolvency (as defined in section 240 of the Insolvency Act) if the beneficiary of the security interest or the guarantee is not a connected person or two years if the beneficiary is a connected person. A court may not make an order in respect of a preference of a person unless it is satisfied that the English Guarantor in deciding to give the preference was influenced by a desire to put that person in a better position. If the court determines that the transaction was a preference, the court can make such order as it thinks fit to restore the position to what it would have been if that preference had not been given (which could include reducing payments under the guarantees or setting aside the security interests or guarantees). There is protection for a third-party that benefits from the transaction and acted in good faith and for value. In any proceedings, it is for the administrator or liquidator to demonstrate that the English Guarantor was unable to pay its debts and that the English Guarantor was influenced by a desire to produce the preferential effect, unless the beneficiary of the transaction was a connected person, in which case there is a presumption that the English Guarantor was influenced by a desire to produce the preferential effect and the connected person must demonstrate in such proceedings that there was no such influence.

### *Transaction Defrauding Creditors*

Under English insolvency law, a liquidator or an administrator of an English Guarantor, or a person who is a victim of the relevant transaction can apply to the court for an order to set aside a security interest or guarantee granted by that English Guarantor on the grounds the security interest or guarantee was a transaction defrauding creditors. A transaction will constitute a transaction defrauding creditors if it is a transaction at an undervalue and the court is satisfied the substantial purpose of a party to the transaction was to put assets beyond the reach of actual or potential claimants against it or to prejudice the interest of such persons. If the court determines that the transaction was a transaction defrauding creditors, then it may make such order as it may deem fit to restore the position to what it was prior to the transaction or protect the victims of the transaction (including reducing payments under the guarantee or setting aside the security interest or guarantees) but there is protection for a third-party acting in good faith and for value without notice of the relevant circumstances. Any “victim” of the transaction (with the leave of the court if the English Guarantor is in liquidation or administration) may apply to court under this provision and not just liquidators or administrators. There is no time limit in the English insolvency legislation within which the English Guarantor must enter insolvency proceedings and the relevant English Guarantor does not need to have been unable to pay its debts at the time of the transaction.

### *Grant of Floating Charge*

Under English insolvency law, if an English Guarantor is unable to pay its debts at the time of (or as a result of) granting a floating charge then such floating charge can be avoided on the action of a liquidator or administrator if it was granted in the period of one year ending with the onset of insolvency (as defined in section 245 of the Insolvency Act 1986). The floating charge, however, will be validated to the extent of the value of the consideration provided for the creation of the charge in the form of money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant English Guarantor at the same time as or after the creation of the floating charge plus interest payable on such amounts. Where the floating charge is granted to a “connected person,” the charge can be challenged if given within two years of the onset of insolvency and the prerequisite to challenge that the English Guarantor is unable to pay its debts does not apply. However, if the floating charge qualifies as a “security financial collateral arrangement,” the floating charge will not be subject to challenge as described in this paragraph.

### *Extortionate Credit Transaction*

An administrator or a liquidator can apply to court to set aside an extortionate credit transaction. The court can review extortionate credit transactions entered into by an English company up to three years before the day on which the English company entered into administration or went into liquidation. A transaction is “extortionate” if, having regard to the risk accepted by the person providing the credit, the terms of it are (or were) such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit or it otherwise grossly contravened ordinary principles of fair dealing.

### *Priority of Claims*

One of the primary functions of administration and liquidation under English law is to realize the assets of the insolvent company and to distribute realizations made from those assets to its creditors. Under the Insolvency Act and the Insolvency (England and Wales) Rules 2016, creditors are placed into different classes, with the proceeds from the realization of the insolvent company’s property applied in descending order of priority, as set out below. With the exception of the “Prescribed Part” (see “—*Administration, Administrative Receivership and Floating Charges*” above), distributions cannot be made to a class of creditors until the claims of the creditors in a prior ranking class have been paid in full. Unless creditors have agreed otherwise, distributions are made on a *pari passu* basis, that is, the assets are distributed in proportion to the debts due to each creditor within a class.

The general priority of claims on insolvency is as follows (in descending order of priority):

*First-ranking claims:* holders of fixed charge security and creditors with a proprietary interest in assets of the debtor but only to the extent of the realizations from those secured assets or with respect to the assets in which they have a proprietary interest;

*Second ranking claims:* expenses of the insolvent estate (there are statutory provisions setting out the order of priority in which expenses are paid);

*Third ranking claims:* preferential creditors. Preferential debts include (but are not limited to) debts owed by the insolvent company in relation to: (i) contributions to occupational and state pension schemes; (ii) wages and salaries of employees for work done in the four months before the insolvency date, up to a maximum of £800 per person; and (iii) holiday pay due to any employee whose contract has been terminated, whether the termination takes place before or after the insolvency date. Note that with effect from April 6, 2020, and as a result of legislative changes introduced in Finance Bill 2019-2020 to amend section 386 and Schedule 6 to the Insolvency Act 1986 and section 129 and Schedule 3 of the Bankruptcy (Scotland) Act 2016, HMRC will constitute a preferential creditor of an insolvent company in respect of certain amounts collected by the insolvent company on behalf of HMRC. As between one another, preferential debts rank equally;

*Fourth ranking claims:* holders of floating charge security, according to the priority of their security. This would include any floating charge that was stated to be a fixed charge in the document that created it but which, on a proper interpretation, was rendered a floating charge. However, before distributing asset realizations to the holders of floating charges, the Prescribed Part (as defined above) must be set aside for distribution to unsecured creditors;

*Fifth ranking claims:* unsecured creditors.

- firstly, provable debts of unsecured creditors and any secured creditor to the extent of any unsecured shortfall, in each case including accrued and unpaid interest on those debts up to the date of commencement of the relevant insolvency proceedings. To pay the secured creditors any unsecured shortfall, the insolvency officeholder can only use realizations from unsecured assets, as secured creditors are not entitled to any distribution from the Prescribed Part unless the Prescribed Part is sufficient to pay out all unsecured creditors;
- secondly, interest on the company’s debts (at the higher of the applicable contractual rate and the official rate) in respect of any period after the commencement of liquidation, or after the commencement of any administration where consent has been given to make distributions. However, in the case of interest accruing on amounts due under the Senior Notes or the guarantees, such interest due to the holders of the Senior Notes may, if there are sufficient realizations from the secured assets, be discharged out of such security recoveries; and

- thirdly, non-provable liabilities, being liabilities that do not fall within any of the categories above and therefore are only recovered in the (unusual) event that all categories above are fully paid. This however does not include “currency conversion” claims following the English Supreme Court Lehman Brothers ruling dated May 17, 2017;

*Sixth ranking claims:* connected/associated creditors. Creditors whose claims are subordinated to the payment of all of the insolvent company’s other creditors; and

*Seventh ranking claims:* shareholders. If after the repayment of all unsecured creditors in full, any remaining funds exist, these will be distributed to the shareholders of the insolvent company.

#### *“People with Significant Control” Regime*

Pursuant to Part 21A of the Companies Act 2006 (and related Schedules 1A and 1B to the Companies Act 2006), from April 6, 2016 certain UK incorporated companies, *societates europaeae* and limited liability partnerships (for the purposes of this paragraph, each a relevant company) must keep a register of certain registrable individuals and legal entities that have significant control over them. Failure of such registrable individuals or legal entities or other persons specified in Part 21A of (and Schedule 1B to) the Companies Act 2006 (for the purposes of this paragraph, each a notifying party) to comply with the requirements of that Part may give relevant companies the right to issue a restrictions notice to such notifying party for the purposes of Schedule 1B to the Companies Act 2006. Subject to certain exceptions, the effect of a restrictions notice is that in respect of any relevant interest in the relevant company (as defined in Schedule 1B to the Companies Act 2006, for example, a share in the relevant company): (i) any transfer of (or agreement to transfer) the interest is void; (ii) no rights are exercisable in respect of the interest; (iii) no shares may be issued in right of the interest or in pursuance of an offer made to the interest-holder; and (iv) except in a liquidation, no payment may be made of sums due from the relevant company in respect of the interest, whether in respect of capital or otherwise. Such restrictions could adversely affect the validity of the security interests over the security and the ability of the relevant secured parties to enforce their rights under or in respect of the English security documents.

#### *Security Over Bank Accounts*

With respect to any security over bank accounts (each an “Account Charge”) granted by an English company, the banks with which some of those accounts are held (each an “Account Bank”) may hold a right at any time (at least prior to them being notified of a crystallization event under the Account Charge) to exercise the rights of netting or set-off to which they are entitled under their cash pooling or other arrangements with that guarantor. As a result, and if the security granted over those accounts is merely a floating (rather than fixed) charge, the collateral constituted by those bank accounts will be subject to the relevant Account Bank’s rights to exercise netting and set-off with respect to the bank accounts charged under the relevant Account Charge. Once the floating charge has crystallized and converted into a fixed charge (as it would on enforcement or the occurrence of certain insolvency events with respect to the relevant English company) and the Account Bank has been formally notified of that fact, the collateral will no longer be subject to the relevant Account Bank’s netting and set-off rights.

#### *Assignments*

Any assignment of a debt or other chose in action, including by way of security, can only take effect as a legal assignment under section 136 of the Law of Property Act 1925 if it meets the requirements of that provision, which are: (i) the assignment must be in writing; (ii) the assignment must be absolute and not purporting to be by way of charge only; and (iii) notice of the assignment must be given to the underlying obligor. If any of these requirements is not satisfied, the assignment may still constitute a valid equitable assignment. Equitable assignments, including by way of security, are subject to certain limitations, including, without limitation: (i) where an equitable interest is followed by a legal interest, the subsequent legal interest will take priority if the holder acquired it for value without notice of the equitable interest; and (ii) the priority of dealings in most equitable interests is determined by the time at which notice of such interest is given to the underlying obligor or to the person in control of that equitable interest. The first to give notice will take priority, if that person does not have actual or constructive notice of the prior interest and has given consideration for his or her interest.

### *Security Over Shares*

A mortgage of shares can only take effect as a legal mortgage if the relevant transfers of shares are registered, although it may still give rise to a valid equitable security interest. Security over shares granted by an English company or over shares of an English company are, under English law, equitable charges, not legal charges. An equitable charge arises where a charger creates an encumbrance over the property in favor of the chargee but the chargor retains legal title to the shares. Remedies in relation to equitable charges may be subject to equitable considerations or are otherwise at the discretion of the court.

### *Amendments*

An English court may interpret restrictively any provision purporting to allow the beneficiary of a guarantee or other suretyship to make a material amendment to the obligations to which the guarantee or suretyship relates without further reference to the guarantor or surety.

### *Security Documents*

The English security documents are subject to the jurisdiction of the English courts. As discussed above, the security documents may be reviewed and interpreted by courts in other jurisdictions if any of the parties are subject to insolvency proceedings in those jurisdictions.

### *Filings*

The prescribed particulars in respect of a security document under which an English company purports to create security, together with a certified copy of the security document, should be delivered to the Registrar of Companies within 21 days after the date of the security document in accordance with Chapter A1 of Part 25 of the Companies Act 2006. Failing this, the security created by the security document will (subject as mentioned in the above Chapter) be void against a liquidator or administrator and any creditor of the charging company. The application of the above Chapter to a security interest is subject to the application of the Financial Collateral Regulations (No. 2) Regulations 2003 (SI 2003 No. 3226). In addition, the following categories of charge are not registrable under the above Chapter (as set out in section 859A(6) of the Companies Act 2006): (i) a charge in favor of a landlord on a cash deposit given as a security in connection with the lease of land; (ii) a charge created by a member of Lloyd's (within the meaning of the Lloyd's Act 1982) to secure its obligations in connection with its underwriting business at Lloyd's; and (iii) a charge excluded from the application of section 859A of the Companies Act 2006 by or under any other Act (such as charges that are exempted from registration under the Banking Act 2009). Registration may also determine the order of priority of registrable security interests and may provide notice of a pre-existing security interest for the purpose of priorities.

### *Currency Conversion*

Under English insolvency law, any debt payable in a currency other than British sterling (such as Euro in the case of the Senior Notes) must be converted into British sterling at the "official exchange rate" prevailing at the date when the debtor went into liquidation or, if the liquidation was immediately preceded by an administration, on the date that the company entered administration. This provision overrides any agreement between the parties. The "official exchange rate" for these purposes is the middle market-rate at the Bank of England as published for the date in question or, if no such rate is published, such rate as the court determines. Accordingly, in the event that the English Guarantors go into liquidation or administration, holders of the Senior Notes may be subject to exchange rate risk between the date that the English Guarantors went into liquidation or administration and receipt of any amounts to which holders of Senior Notes may become entitled.

### *Interest in the Case of Under-Collateralization*

Under English law, a secured creditor's entitlement to interest will, in the first instance, be determined by what is provided for in the relevant debt instrument and related security documents. If that interest accrues under such documents and the security is provided as security for all amounts owing under those documents, the secured creditor will be entitled to satisfy its claim for any interest accrued up to the date of enforcement from the proceeds of enforcement of its security. If:

- (a) those proceeds of enforcement are insufficient to satisfy the secured creditor's claim in full (including any accrued interest); or

- (b) the secured creditor elects to surrender its security and prove for its claim as an unsecured creditor in the debtor's administration or liquidation,

the secured creditor will be entitled to prove for any amounts that remain outstanding (including accrued interest) in accordance with the statutory regime, which applies to both administration and liquidation. The statutory regime provides that creditors may prove for interest accrued up to the date of administration or liquidation at the contractual rate.

In the case of both administration and liquidation, if there is any surplus available after the payment of all debts proved, that surplus must be applied first towards the payment of interest on those proved debts in respect of the period after the debtor entered administration or liquidation. Such interest claims rank equally regardless of whether the debts to which they relate rank equally. Post-administration or liquidation interest is payable at the higher of the rate specified in section 17 of the Judgments Act 1838 on the date when the debtor entered administration or liquidation and the contractual rate.

## **The Netherlands**

### ***Dutch Insolvency Law***

Certain of the Guarantors are incorporated in The Netherlands. Any insolvency proceeding concerning any of such Guarantors would likely be based on Dutch insolvency law under the EU Insolvency Regulation. Under certain circumstances, bankruptcy proceedings may also be opened in The Netherlands in accordance with Dutch law over the assets of companies that are not incorporated under Dutch law.

The following is a brief description of certain aspects of Dutch insolvency law. There are two primary insolvency regimes under Dutch law: the first, moratorium of payments (*surseance van betaling*), is intended to facilitate the reorganization of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate assets and distribute the proceeds of the assets of a debtor to its creditors. Both insolvency regimes are set forth in the Dutch Bankruptcy Act (*Faillissementswet*). In practice, a suspension of payments often results in bankruptcy. A general description of the principles of both insolvency regimes is set out below.

### ***Suspension of Payments***

An application for a moratorium of payments can only be made by the debtor itself, if it foresees that it will be unable to continue to pay its payable debts. Once the request for a moratorium of payments is filed, a court will immediately (*dadelijk*) grant a provisional moratorium and appoint an administrator (*bewindvoerder*). A meeting of creditors is required to decide on the definitive moratorium. If a draft composition (*ontwerpakkoord*) is filed simultaneously with the application for a moratorium of payments, the court can order that the composition will be processed before a decision about a definitive moratorium.

If the composition is accepted and subsequently ratified by the court (*gehomologeerd*), the provisional moratorium ends. The definitive moratorium will generally be granted unless a qualified minority (more than one quarter of the amount of claims held by creditors represented at the creditors' meeting or more than one third of the number of creditors represented at such creditors' meeting) of the unsecured non-preferential creditors withholds its consent. The granting of a definitive moratorium can also be withheld if there is a valid fear that the debtor will try to prejudice the creditors during a moratorium of payments or if there is no prospect that the debtor will be able to satisfy its creditors in the (near) future.

The moratorium of payments is only effective with regard to unsecured non-preferential creditors. Unlike Chapter 11 proceedings under U.S. bankruptcy law, during which both secured and unsecured creditors are generally barred from seeking to recover on their claims during a moratorium of payments, under Dutch law secured and preferential creditors (including tax and social security authorities) may enforce their rights against assets of the company in moratorium of payments to satisfy their claims as if there were no moratorium of payments. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. However, at the request of an interested party the court can order a "cooling down period" (*afkoelingsperiode*) for a maximum period of two months (which can be extended by the court once for another period of two months) during which enforcement actions by secured or preferential creditors are barred. Also in a definitive moratorium of payments, a composition (*akkoord*) may be offered to creditors. A composition will be binding for all unsecured and non-preferential creditors if it is approved by (i) a simple majority of the number of creditors represented at the creditors' meeting, representing at least 50% in amount of the claims that are acknowledged and admitted in the moratorium, and (ii) subsequently ratified (*gehomologeerd*) by the court. Consequently,



Dutch insolvency law could preclude or inhibit the ability of the noteholders to effect a restructuring and could reduce the recovery of a holder of Notes in a Dutch moratorium of payments proceeding. Interest payments that fall due after the date on which a moratorium of payments is granted, cannot be claimed in a composition.

#### *Parallel Debt*

Under Dutch law, it is uncertain whether security interests can be granted to a party other than the creditor of the claim which is purported to be secured by such security interests. For that reason, the Intercreditor Agreement provides for the creation of “parallel debt” obligations in favor of the Security Agent (the “Parallel Debt”) mirroring the obligations of the Senior Secured Notes Issuer and the Guarantors (as principal obligors) towards the holders of the Additional Notes under or in connection with the Indenture, and a pledge under any Dutch share pledge will be granted to the Security Agent to secure only the Parallel Debt. The parallel debt concept has not been tested in Dutch courts, and there is no certainty that it will eliminate or mitigate the risk of unenforceability of a Dutch share pledge posed by Dutch law.

To the extent that the validity or enforceability of a Dutch share pledge is successfully challenged, holders of the Additional Notes will not be entitled to receive on this basis any proceeds from an enforcement of a Dutch share pledge. In addition, the holders of the Additional Notes bear the risks associated with the possible insolvency or bankruptcy of the Security Agent as the beneficiary of the Parallel Debt.

#### *Bankruptcy*

Under Dutch law, a debtor can be declared bankrupt when it has ceased to pay its debts. The bankruptcy can be requested by a creditor of a claim when there is at least one other creditor. At least one of the aforementioned claims (of the bankruptcy requesting creditor or the other creditor) needs to be due and payable. The debtor can also request the application of bankruptcy proceedings itself.

During a Dutch bankruptcy proceeding, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor’s creditors in accordance with the respective rank and priority of their claims. The general principle of Dutch insolvency law is the *paritas creditorum* (principle of equal treatment), which means that all creditors have an equal right to payment and that the proceeds of bankruptcy proceedings shall be distributed in proportion to the size of their respective claims. However, certain creditors (such as secured creditors and tax and social security authorities) will have special rights that take priority over the rights of other creditors. Consequently, Dutch insolvency laws could reduce your potential recovery in a Dutch bankruptcy proceeding.

The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Generally, claims of the noteholders that were not due and payable by their terms on the date of a bankruptcy of the relevant Dutch Guarantor will be accelerated and become due and payable as of that date. Each of these claims will have to be submitted to the bankruptcy receiver (curator) to be verified. “Verification” under Dutch law means that the receiver determines the value of the claim and whether and to what extent it will be admitted in the bankruptcy of the company for the purpose of the distribution of the proceeds. The valuation of claims that otherwise would not have been payable at the time of the bankruptcy proceeding may be based on a net present value analysis. Interest payments that fall due after the date of the bankruptcy cannot be verified. The existence, value and ranking of any claims submitted by the noteholders may be challenged in the Dutch bankruptcy proceeding. Generally, in a creditors’ meeting (*verificatievergadering*), the bankruptcy receiver, the insolvent debtor and all verified creditors may dispute the verification of claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors’ meeting may be referred to separate court proceedings (*renvooiprocedure*). These procedures could cause noteholders to recover less than the principal amount of their Notes or less than they could recover in a U.S. liquidation proceeding. Such *renvooi* proceedings could also cause payments to the noteholders to be delayed compared with holders of undisputed claims. As in moratorium of payments proceedings, in the bankruptcy of a company a composition may be offered to creditors, which shall be binding on unsecured non-preferential creditors if it is approved by (i) a simple majority in number of the creditors represented at the creditors’ meeting, representing at least 50% in amount of the claims that are acknowledged and conditionally admitted, and (ii) subsequently confirmed by the court. The Dutch Bankruptcy Act (*Faillissementswet*) does not in itself acknowledge the concept of classes of creditors. Remaining proceeds, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a pro

rata basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings. The actual effect depends largely on the way such subordination is construed.

Secured creditors may enforce their rights against assets of the debtor to satisfy their claims under a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings the supervisory judge (*rechter-commissaris*) can order a “cooling down period” for a maximum of two months (which can be extended once for another period of two months) during which enforcement actions by secured creditors are barred unless such creditors have obtained leave for enforcement from the supervisory judge. Furthermore, a bankruptcy receiver can force a secured creditor to enforce its security interest within a reasonable period of time, failing which the receiver will be entitled to sell the secured assets, if any, and the secured creditor will have to share in the general costs of the bankruptcy, which can be significant. Excess proceeds of enforcement must be returned to the bankruptcy estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. An exception applies in the case of set-off relating to a payment to the pledgor, not made during its bankruptcy and if there are no other pledgees or other holders of limited rights other than the pledgee, although a set-off prior to bankruptcy may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off. Moreover, to the extent that Dutch law applies, a legal act performed by a debtor (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third-party or agrees to provide or provides security for any of its or a third-party’s obligations, enters into additional agreements benefiting from existing security and any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of its creditors or its trustee in bankruptcy. See below “—Fraudulent Transfer.”

Under Dutch law, as soon as a debtor is declared bankrupt, in principle, all pending executions of judgments against such debtor, as well as all attachments on the debtor’s assets (other than with respect to secured creditors and certain other creditors, as described above), will be terminated by operation of law. Simultaneously with the opening of the bankruptcy, a bankruptcy receiver will be appointed. The proceeds resulting from the liquidation of the bankruptcy estate may not be sufficient to satisfy unsecured creditors under the guarantees granted by an insolvent guarantor after the secured and the preferential creditors have been satisfied. In principle, litigation pending on the date of the bankruptcy order is automatically stayed.

#### ***Limitations on Enforcement***

If a Dutch private limited liability company or public limited liability company grants a guarantee or security interest and that guarantee or security interest is not in the company’s corporate interest, the guarantee or security interest may be nullified by the relevant Dutch company, its bankruptcy receiver (*curator*) in bankruptcy (*faillissement*) and its administrator (*bewindvoerder*) in moratorium of payment proceedings (*surseance van betaling*) or otherwise and, as a consequence, not be valid, binding and enforceable against it. In determining whether the granting of a guarantee or security interest is in the interest of a Dutch company, Dutch courts would not only consider the text of the objects clause in the articles of association (*statuten*) of the company but all relevant circumstances, including (i) whether the company irrespective of the wording of the objects clause derives certain commercial benefits from the transaction in respect of which the guarantee or security interest was granted and (ii) the balance between the risk that the company is assuming and the benefit it derives from such transaction. In addition, if it is determined that there are no, or insufficient, commercial benefits from the transactions for the company that grants the guarantee, then such company (and any bankruptcy receiver) may challenge the enforcement of the guarantee or security interest, and it is possible that such challenge would be successful. Such benefit may, according to Dutch case law, consist of an indirect benefit derived by the company as a consequence of the interdependence of such company with the group of companies to which it belongs. In addition, it is relevant whether, as a consequence of the granting of the guarantee or security interest, the continuity of such company would foreseeably be endangered by the granting of such guarantee or security interest. It remains possible that even if such strong financial and commercial interdependence exists, the transaction may be declared void if it appears that the granting of the guarantee or security interest cannot serve the realization of the relevant company’s objects or where it is determined that there is a material imbalance to the disadvantage of the company between the commercial benefit on the one hand and the risks on the other hand. The above also applies with respect to any security interest granted or other legal act entered into by a Dutch company.

If Dutch law applies, a guarantee or security governed by Dutch law may be voided by a court, if the document was executed through undue influence (*misbruik van omstandigheden*), fraud (*bedrog*), duress

(*bedreiging*) or mistake (*dwalen*) of a party to the agreement contained in that document. Payment pursuant to a guarantee or following enforcement or foreclosure of security granted may, regardless of an insolvency situation occurring or not, also be withheld due to unforeseen circumstances (*onvoorziene omstandigheden*), force majeure (*niet toerekenbare tekortkoming*) or reasonableness and fairness (*redelijkheid en billijkheid*). Other impeding factors include dissolution (*ontbinding*) of contract and set-off (*verrekening*).

In addition, a guarantee issued by a Dutch company and a security interest provided by a Dutch company may be suspended (*schorsen*) by the Enterprise Chamber of the Court of Appeal in Amsterdam (*Ondernemingskamer van het Gerechtshof te Amsterdam*) on the motion of the holder or holders of 10% or more of the shares in such company, as well as on the motion of a trade union and of other entities entitled thereto in the articles of association of the relevant Dutch company. Likewise, the guarantee or security itself may be upheld by the Enterprise Chamber, yet actual payment under it may be suspended or avoided.

According to Dutch case law, a director (*bestuurder*) of a company acts wrongfully against a creditor of the company if he has entered into commitments on behalf of that company, while he knew or reasonably ought to understand that the company would not, or not within a reasonable period of time, be able to meet its obligations and would not provide sufficient opportunity for recourse for the detriment that the creditor would suffer on the basis thereof. The foregoing is subject to any circumstances raised by the director on the basis of which the conclusion is justified that he personally cannot be blamed sufficiently (*voldoende ernstig verwijt*) for the detriment suffered.

### ***Fraudulent Transfer***

To the extent that Dutch law applies, a guarantee or security interest granted by a legal entity may, under certain circumstances, be nullified by any of its creditors, if (i) the guarantee or security interest was granted without prior existing legal obligation to do so (*onverplicht*), (ii) the creditor(s) concerned was/were prejudiced as a consequence of the guarantee or the granting of the security interest and (iii) at the time the guarantee or security interest was granted both the legal entity and, unless the guarantee or security interest was granted for no consideration (*om niet*), the beneficiary of the guarantee or security interest knew or should have known that one or more of the entities' creditors (existing or future) would be prejudiced (*actio pauliana*). Also to the extent that Dutch insolvency law applies, a guarantee or security interest may be nullified by the bankruptcy receiver (*curator*) on behalf of and for the benefit of all creditors of the insolvent debtor, and in such case the beneficiary of the guarantee or security interest is presumed (subject to evidence to the contrary) to have known that creditors of the debtor would be prejudiced if the bankruptcy follows within a year of the granting and for no consideration. The foregoing requirements for invoking fraudulent transfer outside of a bankruptcy apply *mutatis mutandis* when invoking fraudulent transfer provisions during a bankruptcy. In addition, the bankruptcy receiver may challenge the guarantee or security interest if it was granted on the basis of a prior existing legal obligation to do so (*verplichte rechtshandeling*), if (i) the guarantee or security interest was granted at a time that the beneficiary of such guarantee or security interest knew that a request for bankruptcy had been filed or (ii) if such guarantee or security interest was granted as a result of deliberation between the debtor and the beneficiary of such guarantee or security interest with a view to give preference to the beneficiary over the debtor's other creditors. Consequently, the validity of any guarantees or security interests granted by a Dutch legal entity may be challenged and it is possible that such challenge would be successful.

It is not certain and has not been determined in published case law whether a right of pledge on shares can be created in advance of the acquisition of the shares by the pledgor. If a security right is created on collateral to which a Dutch company has not yet obtained a legally valid title, such collateral will not be subject to such a security interest if that company is declared bankrupt or granted a moratorium of payments prior to obtaining title thereto.

It is not possible to conduct searches in respect of any Dutch law governed security (other than, if created, in respect of rights of mortgage), with the exception of any pledge created on the shares in a Dutch private limited liability company which should be registered in its shareholders' register. However, this does not constitute conclusive evidence of the absence of any pre-existing security.

## **Republic of Ireland**

### ***Insolvency***

One of the Guarantors is incorporated under the laws of Ireland (“RoI”) and has its registered office in Ireland (the “RoI Guarantor”). Under the Recast Insolvency Regulation, the RoI Guarantor’s centre of main interest (“COMI”) is presumed to be the place of its registered office (i.e. Ireland) in the absence of proof to the contrary and provided that the RoI Guarantor did not move its registered office within the three months prior to a request to open insolvency proceedings.

As the RoI Guarantor’s COMI is presumed to be Ireland, any main insolvency proceedings in respect of the relevant RoI Guarantor would fall within the jurisdiction of the courts of Ireland. As to what might constitute “proof to the contrary” regarding the location of a company’s COMI, the key decision is that in *Re Eurofood IFSC Ltd* ((2004) 4 IR 370 (Irish High Court); (2006) IESC 41 (Irish Supreme Court); (2006) Ch 508; ECJ Case C 341/04 (European Court of Justice)), given in respect of the equivalent provision in the previous EU Insolvency Regulation (Regulation (EC) No. 1346/2000). In that case, on a reference from the Irish Supreme Court, the European Court of Justice concluded that “factors which are both objective and ascertainable by third parties” would be needed to demonstrate that a company’s actual situation is different from that which the location of its registered office is deemed to reflect. For instance, if a company with its registered office in Ireland does not carry on any business in Ireland, that could rebut the presumption that the company’s COMI is in Ireland. However, if a company with its registered office in Ireland does carry on business in Ireland, the fact that its economic choices are controlled by a parent undertaking in another jurisdiction would not, of itself, be sufficient to rebut the presumption.

If the RoI Guarantor’s COMI was found to be in another EU jurisdiction and not in Ireland, main insolvency proceedings would be opened in that jurisdiction instead.

RoI insolvency laws and other limitations could limit the enforceability of a guarantee provided by the RoI Guarantors and any security interests granted by the RoI Guarantor.

The following is a brief description of certain aspects of RoI insolvency laws relating to certain limitations on the Guarantees and security interests in respect of the Tap Notes, insofar as they are provided by the RoI Guarantor.

The application of these laws could adversely affect your ability to enforce your rights under the Guarantees or the Senior Secured Notes Collateral securing the Tap Notes and limit any amounts that you may receive. The STADA Group has also analyzed the typical forms of security interests in RoI which are commonly created in RoI over a company’s assets, namely fixed and floating charges.

### ***Fixed and Floating Charges***

Under RoI law, there are a number of ways in which fixed charge security has an advantage over floating charge security: (a) an examiner appointed to the charging company can deal with floating charge assets; (b) a fixed charge, even if created after the date of a floating charge, may have priority as against the floating charge over the charged assets; (c) general costs and expenses (including the liquidator’s remuneration) properly incurred in a winding up are payable out of the company’s assets (including the assets that are the subject of the floating charge) in priority to floating charge claims; (d) until the floating charge security crystallizes, a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of business, meaning that such assets can be effectively disposed of by the charging company so as to give a third-party good title to the assets free of the floating charge and so as to give rise to the risk of security being granted over such assets in priority to the floating charge security; (e) floating charge security is subject to certain challenges under Irish insolvency law (please see “—Challenges to Guarantees and Security—Grant of Floating Charge”); and (f) floating charge security is subject to the claims of preferential creditors in a winding up (such as certain taxes, occupational pension scheme contributions and salaries owed to employees subject to a cap per employee) and holiday pay owed to employees.

Under RoI law there is a possibility that a court could recharacterize fixed security interests purported to be created by a security document as floating charges; the description given to security interests by the parties is not determinative. Whether security interests labelled as fixed will be upheld as fixed security interests rather than floating security interests will depend on, among other things, whether the chargee has the requisite degree of control over the relevant chargor’s ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the chargee in practice. Where the chargor



is free to deal with the secured assets without the consent of the chargee prior to crystallization, the court is likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge in the security documents. In addition, to the extent that any of the assets which are expressed to be subject to a fixed charge are not specifically identified, the court may hold that such assets are, in fact, subject to a floating charge.

### ***Preferred Creditors Under RoI Law***

Under Section 621 (Preferential Payments in a winding up) (“Section 621”) of the Companies Act 2014 (as amended, the “Companies Act”) in a winding up of an RoI company certain preferential debts are required to be paid in priority to all debts other than those secured by a fixed charge. Preferential debts therefore have priority over debts secured by a floating charge. If the assets of the relevant company available for the payment of general creditors are insufficient to pay the preferential debts, they are required to be paid out of the property subject to the floating charge. Section 621 was amended by the Companies (Accounting) Act 2017 (with effect from June 9, 2017) with the effect that a charge created as a floating charge by a company will continue to rank as a floating charge on a winding up of that company, even if that floating charge has crystallized. Under Section 440 (Preferential Payments when receiver appointed under floating charge) of the Companies Act, the holder of a floating charge, or a receiver appointed by such a holder, who takes possession of property subject to the floating charge when the company is not in the course of being wound up, is required to pay the preferential debts out of that property in priority to principal and interest secured by the floating charge. Such preferential debts would comprise, among other things, any amounts owed in respect of local rates and certain amounts owed to the RoI Revenue Commissioners for income/corporation/capital gains tax, value added tax (VAT), employee related taxes, social security and pension scheme contributions and remuneration, salaries and wages of employees and certain contractors and the expenses of liquidation.

In addition, there is a further limited category of super preferential creditors which take priority, not only over unsecured creditors and holders of floating security, but also over holders of fixed security. These super preferential claims include the remuneration, costs and expenses properly incurred by any examiner of the company which may include any borrowings made by an examiner to fund the company’s requirements for the duration of his appointment that have been approved by the RoI courts, (see “—*Examinership*” below) and any capital gains tax payable on the disposition of an asset of the company by a liquidator, receiver or mortgagee in possession as well as, in certain circumstances, PAYE and VAT arrears where a fixed charge over book debts is created.

Furthermore, and as referred to above (see “—*Fixed and Floating Charges*”), in the case of the application of moneys arising from the realization of secured assets that are subject to a floating charge, or in a winding up, the costs of the liquidation and the liquidator’s fees will take priority over the claims of floating chargeholders in respect of relevant assets.

### ***Examinership***

Examinership is a court procedure available under the Companies Act to facilitate the survival of the whole or part of an RoI company the whole or any part of its undertaking through the appointment of an examiner and the formulation by the examiner of proposals for a compromise or scheme of arrangement. In circumstances where an RoI company is or is likely to be unable to pay its debts, then that company, the directors of that company, a contingent, prospective or actual creditor of that company, or shareholders of that company holding, at the date of presentation of the petition, not less than one tenth of the paid up voting share capital of that company are each entitled to petition the court for the appointment of an examiner to that company. Provided the company can demonstrate its survival (and all or part of its undertaking) as a going concern, and can satisfy certain tests, the ROI company may be placed under the protection of the relevant Irish court (the “Court”) for a period of time whilst its affairs are investigated by an independent examiner whose function is to see whether the company is capable of being rescued and to supervise the restructuring process.

Where the Court appoints an examiner to a company, it may, at the same or any time thereafter, make an order appointing the examiner to be examiner for the purposes of the Companies Act to a related company of such company. Once confirmed by the Court the scheme is binding on the company and all its members and creditors. During the protection period the day-to-day business of the company remains under the control of the directors of the company, subject to certain rights of the examiner to apply to the Court.



Once appointed an examiner must, as soon as practical, formulate proposals for a compromise or scheme of arrangement in relation to the company to which he has been appointed. Typically, a scheme of arrangement will involve the writing down of creditors' claims (both secured and unsecured, contingent and actual) that are in existence at the date of the petition and the introduction into the company of new funds. The examiner has the power to set aside contracts and arrangements entered into by the company after this appointment and, in certain circumstances, can avoid a negative pledge given by the company prior to this appointment. Furthermore, the examiner may sell assets of the company which are the subject of security. Where such assets are the subject of a fixed security interest, the examiner must account to the holders of the fixed security interest for the amount realized and discharge the amount due to the holders of the fixed security interest out of the proceeds of the sale. Having formulated his proposals, he must convene meetings of such classes of members and creditors as he thinks proper to consider acceptance of his proposals. The examiner must report to the Court on the outcome of his meetings within 35 days of his appointment, although the 35 day period can be extended by the Court. There is acceptance by creditors or by a class of creditors when a majority in number representing a majority in value of the claims represented at the meeting vote in favor of the proposals. The proposals must be confirmed by the Court if they are to become effective and the Court can confirm the proposals only if, *inter alia*: (a) at least one class of creditors whose interests or claims would be impaired by implementation of the proposals have accepted them; (b) the Court is satisfied that the proposals are fair and equitable in relation to any class of members or creditors that has not accepted them and whose interests and claims would be impaired by implementation; and (c) they are not unfairly prejudicial to the interests of any interested party.

Once confirmed by the Court, the proposals become binding on the company and all creditors (whether secured or unsecured) or the class or classes of creditors (whether secured or unsecured), as the case may be, affected by the proposals and their rights are accordingly modified.

For as long as a company is under the protection of the Court, no attachment, sequestration, distress or execution shall be put into force against the property or effects of the relevant company except with the consent of the examiner. Section 520 (Effect of petition to appoint examiner on creditors and others) of the Companies Act provides, among other things, that except with the consent of the examiner:

- where any claim against the company is secured by a mortgage, charge, lien or other encumbrance or a pledge of, on or affecting the whole or any part of the property, effects or income of the ROI company, no action may be taken to realize the whole or any part of such security;
- no receiver over any part of the property or undertaking of the ROI company shall be appointed (and if a receiver was appointed before the petition was presented, that receiver was unable to act); and
- no proceedings for the winding up of the company may be commenced and no resolution for winding up of the company may be passed (and no such resolution passed shall have any effect).

In addition, pursuant to Section 521 (Restriction on payment of pre-petition debts) of the Companies Act, no payment may be made by a company during the period of Court protection by way of satisfaction or discharge of the whole or a part of a liability incurred by the company before the date upon which the petition for the examiner's appointment was presented unless the independent expert's report under Section 511 (Independent expert's report) of the Companies Act that accompanied the petition recommended that all or part of that liability be discharged or satisfied, or such payment is authorized by the relevant Irish court (on application of the examiner or any interested party) where the relevant Irish court is satisfied that a failure to discharge or satisfy in whole or in part that liability would considerably reduce the prospects of the company or the whole or any part of its undertaking surviving as a going concern.

Where an examinership petition is presented in relation to a company, that company is deemed to be under the protection of the Court during the period beginning on presentation of the petition and ending 70 days later (which period may be extended by a further 30 days where the Court is satisfied that the examiner would not be able to present his report within 70 days, or by such further unlimited period as the Court may allow where the Court needs more time to consider the proposals contained in the examiner's final report). In the event of an appeal of the Court's decision, the protection period is likely to be further extended in order to allow the determination of the appeal.

Furthermore, the Court may order that an examiner shall have any of the powers of a liquidator appointed by the Court would have, which could include the power to apply to have transactions disclaimed if the related contract amounted to an unfair preference.

### ***Primary Risks for Holders of Notes in an Examinership***

The primary risks to the holders of the Tap Notes, under the laws of Ireland, if an examiner were appointed to the RoI Guarantor and/or to a company related to such an RoI company and where any amounts due under the Tap Notes were unpaid, are as follows: (a) there may be a delay in enforcing the payment obligations of the RoI Guarantor in respect of the Tap Notes and of any payment obligations contained in a guarantee given by any other related company subject to the examinership proceedings; (b) the potential for a compromise or scheme of arrangement being approved involving the writing down or rescheduling of the debt due by the RoI Guarantor to the holders of the Tap Notes; (c) the potential for a compromise or scheme of arrangement being approved involving the writing down or rescheduling of any payment obligations owed to the holders of the Tap Notes by a company related to such RoI Guarantor; (d) the potential for the examiner to seek to set aside any negative pledge prohibiting the creation of security or the incurring of borrowings by the RoI Guarantor to enable the examiner to borrow to fund the guarantor or issuer during the protection period; and (e) in the event that a scheme of arrangement is not approved in respect of an RoI company guarantor of the Tap Notes and the guarantor subsequently goes into liquidation, the examiner's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the guarantor and approved by the RoI High Court) will take priority over the moneys and liabilities which from time to time are or may become due, owing or payable by it to the holders of the Tap Notes.

### ***Challenges to Guarantees and Security***

There are circumstances under RoI insolvency law in which the granting by an RoI company of security and guarantees can be challenged. In most cases this will only arise if an examiner or a liquidator is appointed to the RoI company within a specified period (as set out in more detail below) of the granting of the security or giving of the guarantee and, in addition, the company was "unable to pay its debts" when the security interest was granted or when the guarantee was given or "unable to pay its debts" within the meaning of the Companies Act as a result.

The following potential grounds for challenge may apply to security interests and guarantees:

#### ***Unfair Preference***

Under Irish insolvency law, if an ROI company goes into liquidation, a liquidator may apply to the court to have certain transactions disclaimed if the related contract amounted to an unfair preference. Section 604 (Unfair preference: effect of winding up on antecedent and other transactions) of the Companies Act ("Section 604") provides that any conveyance, mortgage, delivery of goods, payment, execution or other act relating to property made or done by or against a company which is unable to pay its debts as they become due in favor of any creditor of the company or any person on trust for any such creditor, with a view to giving such creditor (or any surety or guarantor of the debt due to such creditor) a preference over the company's other creditors, shall be deemed to be an unfair preference of its creditors and be invalid accordingly if a winding up of the company commences within six months of the doing of the act and the company is, at the date of commencement of the winding up, unable to pay its debts (taking into account contingent and prospective liabilities).

#### ***Improperly Transferred Assets***

Under Section 608 (Power of the court to order return of assets which have been improperly transferred) of the Companies Act ("Section 608"), if it can be shown on the application of a liquidator, creditor or contributory of a company which is being wound up, to the satisfaction of the High Court, that any property of that company was disposed of (including a disposal by way of charge, security assignment or mortgage) and the effect of such a disposal was to "perpetrate a fraud" on the company, its creditors or members, the High Court may, if it deems it just and equitable to do so, order any person who appears to have "use, control or possession" of the property concerned, or of the proceeds of the sale or development of that property, to deliver it or them, or to pay a sum in respect of it to the liquidator on such terms as the High Court sees fit. The ability to use Section 608 to challenge the transfer of assets has been extended to receivers and examiners. Section 608 does not apply to a disposal that would constitute an unfair preference for the purposes of Section 604.

### *Disclaimer of Onerous Contracts*

Under Section 615 (Disclaimer of onerous property in case of company being wound up) of the Companies Act, the liquidator of a company may, by the giving of notice, disclaim any onerous property of the company. “Onerous property” is defined to include any “unprofitable contract” and “any other property (of the company) which is unsaleable or not readily saleable by reason of its binding the possessor of it to the performance of any onerous act or to the payment of any sum of money.”

### *Grant of Floating Charge*

Under Section 597 (Circumstances in which floating charge is invalid) of the Companies Act, a floating charge is invalid if created in the period of twelve months (or two years if created in favor of a “connected person”) ending with the date of commencement of the winding up of the company, and unless it can be proven that the company was solvent immediately after the creation of the charge. Such invalidity does not apply to money actually advanced or paid or the actual price or value of goods or services sold or supplied to the company at the time or after the creation of, and in consideration for, the charge together with interest at the appropriate rate.

### *General*

If the RoI Guarantor becomes subject to an RoI law insolvency proceeding and that company has obligations to creditors that are treated under RoI law as senior relative to the company’s obligations to the noteholders, the noteholders may suffer losses as a result of their subordinated status during such insolvency proceeding.

The validity and enforceability of a guarantee or security interest may be contested on the basis that it is prohibited under the relevant company’s constitution. To the extent that the constitution does not allow such an action, there is the risk that the grant of the guarantees may be found to be void and unenforceable. Further, guarantees by the Irish guarantors for the obligations of another group company must be in the commercial interest and for the corporate benefit of the Irish guarantors. If the giving of a guarantee is not for the Irish guarantors’ corporate benefit, the guarantees could be held null and void. The question of corporate benefit is determined on a case by case basis and consideration has to be given to any direct and/or indirect benefit that the company would actually derive from the transaction and is particularly relevant for upstream or cross stream guarantees. The question whether or not the corporate benefit requirement is met is a matter of fact, which must be assessed by the competent body of the company being the board of directors of the company acting bona fide in the interest of the company. If the corporate benefit requirement is not met, the directors of the company may be held liable by the company for negligence in the management of the company. Moreover, the guarantees could be declared null and void. The validity and/or enforceability of the guarantees may also be subject to the statutes of limitations, defenses such as set-off or counterclaim, the doctrine of frustration and the doctrine of estoppel, and the fact that equitable remedies will only be granted by the Irish court in its discretion.

Subject to certain exceptions, under Section 82 (Financial assistance for acquisition of shares) of the Companies Act (“Section 82”), it is unlawful for a RoI company to give, whether directly or indirectly, and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person or for any shares in the company or its holding company. As a result, the Tap Notes may only be guaranteed by the relevant ROI company to the extent that it would not result in such guarantee constituting the giving of unlawful financial assistance under Section 82.

Pursuant to Section 1001 of the RoI Taxes Consolidation Act 1997, the holder of a fixed security over book debts of an RoI tax resident company may be required by notice from the RoI Revenue Commissioners to pay to them sums equivalent to those which the holder thereafter receives in payment of debts due to it by the relevant company. Where the holder of the security has informed the RoI Revenue Commissioners of the creation of the security within 21 days of its creation, the holder’s liability is limited to the amount of certain outstanding RoI tax liabilities of the company (including liabilities in respect of value added tax) arising after the issue to the holder of a notice from the RoI Revenue Commissioners.

The RoI Revenue Commissioners may also attach any debt due to an RoI tax resident company by another person in order to discharge any liabilities of the company in respect of outstanding tax whether the liabilities are due on its own account or as an agent or trustee. It is possible that the scope of this right of

the RoI Revenue Commissioners may override the rights of holders of security (whether fixed or floating) over the debt in question.

## **Northern Ireland**

### ***Insolvency***

One of the Guarantors is incorporated under the laws of Northern Ireland (the “NI Guarantor”). Accordingly, insolvency proceedings in respect of the NI Guarantor are likely to be governed by the laws of Northern Ireland. Insolvency laws in Northern Ireland may not be as favorable to your interests as the laws of the United States and other jurisdictions with which you are familiar. Where the NI Guarantor experiences financial difficulties, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

Northern Irish insolvency laws and other limitations could limit the enforceability of a guarantee provided by the NI Guarantor and any security interests granted by the NI Guarantor.

The following is a brief description of certain aspects of Northern Irish insolvency laws relating to certain limitations on the Senior Secured Notes Guarantees and security interests in respect of the Tap Notes, insofar as they are provided by the NI Guarantor.

The application of these laws could adversely affect your ability to enforce your rights under the Senior Secured Notes Guarantees or the Senior Secured Notes Collateral securing the Tap Notes and limit any amounts that you may receive. The Group has also analyzed the typical forms of security interests in Northern Ireland which are commonly created in Northern Ireland over a company’s assets, namely fixed and floating charges.

### ***General***

The laws relating to insolvency and the validity/enforceability of guarantees and security are broadly the same as those in England and Wales but substantially different from those equivalent laws in the Republic of Ireland.

As a general rule, insolvency proceedings with respect to a Northern Irish company should be commenced in Northern Ireland based on Northern Irish insolvency laws; although insolvency proceedings in respect of Northern Irish companies could also be based in other jurisdictions under certain circumstances. Formal insolvency proceedings under the laws of Northern Ireland may be initiated in a number of ways, including by (i) the company, its directors, or one or more of its creditors making an application for administration, (ii) the company, its directors, or certain creditors appointing administrators out of court, or (iii) a creditor filing a petition to wind up a Northern Irish company or the company resolving to wind itself up (in the case of liquidation).

A Northern Irish company may be wound up if it is unable to pay its debts, and may be placed into administration if it is, or is likely to become, unable to pay its debts, and the administration is reasonably likely to achieve one of three statutory purposes.

Under the Insolvency (Northern Ireland) Order 1989 (as amended), a company is deemed to be unable to pay its debts if it is insolvent on a “cash flow” basis (it is proved to the satisfaction of the court that it is unable to pay its debts as they fall due), if it is insolvent on a “balance-sheet” basis (it is proved to the satisfaction of the court that the value of the company’s assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities), if it fails to satisfy a creditor’s statutory demand for a debt exceeding £750 within the specified time or if it fails to satisfy in full a judgment debt (or similar court order).

### ***Fixed Versus Floating Charges***

There are a number of ways in which fixed charge security has an advantage over floating charge security: (a) an administrator appointed to a charging company can (without the floating charge holder’s consent) convert floating charge assets to cash and use such cash, or use cash subject to a floating charge, to meet administration expenses (which can include the costs of continuing to operate the business of the charging company) while in administration in priority to the claims of the floating charge holder; (b) a fixed charge, even if created after the date of a floating charge, may have priority as against the floating charge over the charged assets; (c) general costs and expenses (including the remuneration of a liquidator) properly incurred in a winding up are payable out of the assets of the charging company (including the assets the

subject of the floating charge) in priority to floating charge claims; (d) until the floating charge security crystallizes, a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of business, meaning that such assets can be effectively disposed of by the charging company so as to give a third-party good title to the assets free of the floating charge and so as to give rise to the risk of security being granted over such assets in priority to the floating charge security; (e) there are particular challenge risks in relation to floating charge security; and (f) floating charge security is subject to the claims of preferential creditors (such as occupational pension scheme contributions and salaries (including holiday pay) owed to employees) and to ring fencing (see below “—*Administration and Floating Charges*”).

Under insolvency laws in Northern Ireland, there is a possibility that a court could find that the fixed security interests expressed to be created by a security document could take effect as floating charges because the description given to them as fixed charges is not determinative. Whether fixed security interests will be upheld as fixed rather than floating security interests will depend, among other things, on whether the chargee has the requisite degree of control over the ability of the relevant chargor to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the chargee in practice. Where the chargor is free to deal with the secured assets without the consent of the chargee, the court is likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

### *Administration and Floating Charges*

The Insolvency (Northern Ireland) Order 1989 (as amended by the Insolvency (Northern Ireland) Order 2005 and as otherwise amended) empowers courts in Northern Ireland to make an administration order in respect of a Northern Irish company in certain circumstances.

An administration order can be made if the court is satisfied that the relevant company is or is likely to become “unable to pay its debts” as defined in Article 103 of the Insolvency (Northern Ireland) Order 1989 and that the administration order is reasonably likely to achieve the statutory purpose of administration.

An administrator can also be appointed out of court by the company, its directors or the holder of a qualifying floating charge which has become enforceable. During the administration, no proceedings or other legal process may be commenced or continued against the company in administration, or security enforced over the company’s property, except with leave of the court or the consent of the administrator (the statutory moratorium). Certain creditors of a company in administration may be able to realize their security over that company’s property notwithstanding the statutory moratorium.

In England and Wales the statutory moratorium does not apply to security interests created or arising under a “financial collateral agreement” (generally, security/collateral in respect of cash or financial instruments, such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003 (the “2003 Regulations”).

The 2003 Regulations were implemented at a time when the Enterprise Act 2002 was in force in England and Wales; however the equivalent provisions in Northern Ireland were not introduced until the Insolvency (Northern Ireland) Order 2005 (the “2005 Order”) came into force. The 2005 Order introduced Schedule B1 to the Insolvency (Northern Ireland) Order 1989 and replaced Part III of the Insolvency (Northern Ireland) Order 1989 which the 2003 Regulations had amended as far as financial collateral arrangements were concerned. Following this, the Financial Markets and Insolvency (Settlement Finality and Financial Collateral Arrangements) (Amendment) Regulations 2010 (the “2010 Regulations”) reflected the changes brought about to the administration regime in Northern Ireland, as a consequence of the implementation of the 2005 Order.

However, there appears to be one omission, which is the failure of the 2010 Regulations to disable the effect of Paragraph 42(2) of Schedule B1 to the Insolvency (Northern Ireland) Order 1989, in relation to a receiver appointed pursuant to a financial collateral arrangement.

Therefore, if a Northern Irish company were to enter administration, it is possible that the security or the guarantee granted by it may not be enforced while it is in administration, without the leave of court or consent of the administrator. In addition, as stated above, Paragraph 42(2) of Schedule B1 to the Insolvency (Northern Ireland) Order 1989 has not been disapplied by the 2003 Regulations or the 2010 Regulations. Accordingly, there is a risk that any receiver appointed over an asset of a Northern Irish



company under a financial collateral arrangement may be required to vacate office by an administrator of that entity if an administrator was appointed pursuant to the laws of Northern Ireland.

There can be no assurance that the Security Agent would obtain this leave of court or consent of the administrator. In addition, other than in limited circumstances, no administrative receiver can be appointed by a secured creditor in preference to an administrator, and any already appointed receiver must resign if requested to do so by the administrator. Where the company is already in administration no other receiver may be appointed over that company's fixed assets (commonly referred to as a fixed charge receiver) without the leave of a court of a competent jurisdiction in Northern Ireland (the "Northern Irish Court") or the administrator's consent.

In order to empower the Security Agent to appoint an administrative receiver or an administrator to the company, the floating charge granted by the relevant Northern Irish obligor must constitute a "qualifying floating charge" for the purposes of Northern Irish insolvency law and, in the case of the ability to appoint an administrative receiver, the qualifying floating charge must, unless the security document pre dates March 27, 2006, fall within one of the exceptions in the Insolvency (Northern Ireland) Order 1989 (as amended) to the prohibition on the appointment of administrative receivers. In order to constitute a qualifying floating charge, the floating charge must be created by an instrument which (a) states that the relevant statutory provision applies to it, (b) purports to empower the holder to appoint an administrator of the company or (c) purports to empower the holder to appoint an administrative receiver within the meaning given by Article 5(1) of the Insolvency (Northern Ireland) Order 1989 (as amended). The Security Agent will be the holder of a qualifying floating charge if such floating charge security, together (if necessary) with the fixed charge security interests, relate to the whole or substantially the whole of the relevant Northern Irish obligor's property and at least one such security interest is a qualifying floating charge. The most relevant exception to the prohibition on the appointment of an administrative receiver is the exception relating to "capital market arrangements" (as defined in the Insolvency (Northern Ireland) Order 1989, as amended), which will apply if a Northern Irish obligor creates a debt of at least £50,000,000 for the relevant company during the life of the arrangement and the arrangement involves the issue of a "capital markets investment" (which is defined in the Insolvency (Northern Ireland) Order 1989, as amended, but is generally a rated, listed or traded debt instrument). An administrator, receiver or liquidator of the company will be required to ring fence a certain percentage of the proceeds of enforcement of floating charge security (after making full provision for preferential creditors and expenses (floating charge realizations)) for the benefit of unsecured creditors. Under current law, this applies to 50% of the first £10,000 of floating charge realizations and 20% of the remainder over £10,000, with a maximum aggregate cap of £600,000. Whether the assets that are subject to the floating charges and other security will constitute substantially the whole of the relevant Northern Irish obligor's assets at the time that the floating charges are enforced will be a question of fact at that time.

### ***Liquidation***

The NI Guarantor may be wound up under the laws of Northern Ireland. This means that the NI Guarantor would be placed into either creditors' voluntary liquidation or compulsory liquidation, both of which are insolvent liquidations. The NI Guarantor is not referring to the process of Members' voluntary liquidation which is a solvent winding up and outside the scope of this analysis.

On the liquidation of a Northern Irish company, there is no automatic statutory moratorium in place preventing, amongst other things, the holders of security interests from taking steps to enforce those security interests. Where the NI Guarantor is placed into creditors' voluntary liquidation, there are no restrictions on the holder of security either by way of fixed or floating charge from taking steps to enforce those security interests unless the liquidator or any creditor has applied to a court for a stay. However, where the NI Guarantor is placed into compulsory liquidation, the consent of a Northern Irish Court is strictly required before any security interest can be enforced. In addition, with compulsory liquidation where the obligations under the Senior Secured Notes Guarantees are unsecured because of some inherent defect in the security interest, that guarantor cannot take action or commence proceedings to recover the amounts due on foot of the guarantee without the consent of a Northern Irish Court by virtue of Article 110(3) of the Insolvency (Northern Ireland) Order 1989 (as amended).

### ***Challenges to Guarantees and Security***

There are circumstances under Northern Irish insolvency law in which the granting by a Northern Irish company of security and guarantees can be challenged. In most cases, this will only arise if the Northern

Irish company is placed into administration or liquidation within a specified period of the granting of the guarantee or security. Therefore, if during the specified period an administrator or liquidator is appointed to a Northern Irish company, the administrator or liquidator may challenge the validity of the security or guarantee given by such company.

The following potential grounds for challenge may apply under Northern Irish law to guarantees and security interests:

#### *Transaction at an Undervalue*

Under Northern Irish insolvency law, a liquidator or administrator of a Northern Irish company could apply to a Northern Irish Court for an Order to set aside the creation of a security interest or a guarantee if such liquidator or administrator believes that the creation of such security interest or guarantee constituted a gift or transfer for no or significantly less consideration. There will only be a transaction at an undervalue if, at the time of the transaction or as a result of the transaction, the Northern Irish company was or becomes unable to pay its debts (as defined in Article 103 of the Insolvency (Northern Ireland) Order 1989). The transaction is subject to potential challenge if the Northern Irish company enters into liquidation or administration proceedings within a period of two years from the date the Northern Irish company grants the security interest or guarantee. However, a Northern Irish Court generally will not intervene if a company entered into the transaction in good faith for the purpose of carrying on its business and if at the time it did so there were reasonable grounds for believing the transaction would benefit the company. The Senior Secured Notes Issuer cannot assure holders of the Tap Notes that in the event of insolvency, the granting of the security by the NI Guarantor would not be challenged by a liquidator or administrator or that a court would support the analysis that (in any event) the guarantee was entered into in good faith for the purposes described above. If a Northern Irish Court determines that the transaction was a transaction at an undervalue, a Northern Irish Court can make such order as it thinks fit to restore the position to what it would have been in if the transaction had not been entered into. In any proceedings, it is for the administrator or liquidator to demonstrate that the Northern Irish company was insolvent unless a beneficiary of the transaction was a connected person (as defined in the Insolvency (Northern Ireland) Order 1989, as amended), in which case there is a presumption of insolvency and the connected person must demonstrate the solvency of the Northern Irish company in such proceedings.

#### *Preference*

Under Northern Irish insolvency law, a liquidator or administrator of a Northern Irish company could apply to a Northern Irish Court for an order to set aside the creation of a security interest or a guarantee if such liquidator or administrator believes that the creation of such security interest or such guarantee constituted a preference. There will only be a preference if, at the time the transaction was entered into, the Northern Irish company was unable to pay its debts (as defined in the Insolvency (Northern Ireland) Order 1989, as amended) or the Northern Irish company becomes unable to pay its debts (as defined in the Insolvency (Northern Ireland) Order 1989, as amended) as a consequence of its entry into the transaction. The transaction can be challenged if the Northern Irish company enters into liquidation or administration proceedings within a period of six months (if the beneficiary of the security or the guarantee is not a connected person) or two years (if the beneficiary is a connected person) from the date the Northern Irish company takes the decision to grant the security interest or the guarantee.

A transaction will constitute a preference if it has the effect of putting a creditor of the Northern Irish company (or a surety or guarantor for any of the company's debts or liabilities) in a better position (in the event of the company going into insolvent liquidation) than such creditor, guarantor or surety would otherwise have been in had that transaction not been entered into. If a Northern Irish Court determines that the transaction constituted such a preference, a Northern Irish Court has very wide powers for restoring the position to what it would have been if that preference had not been given, which could, in this case, include reducing payments under the Additional Notes and the Senior Secured Notes Guarantees (although there is protection for a third-party who enters into one of the transactions in good faith and without notice). However, for a Northern Irish Court to do so, it must be shown that in deciding to give the preference the Northern Irish company was influenced by a desire to produce the preferential effect. In any proceedings, it is for the administrator or liquidator to demonstrate that the Northern Irish company was insolvent at the relevant time and that the company was influenced by a desire to produce the preferential effect, unless the beneficiary of the transaction was a connected person, in which case there is a presumption that the company was influenced by a desire to produce the preferential effect and the connected person must demonstrate in such proceedings that there was no such influence.

### *Transaction Defrauding Creditors*

Under Northern Irish insolvency law, where it can be shown that a transaction was at an undervalue and was made for the purposes of putting assets beyond the reach of a person who is making, or may make, a claim against a company, or of otherwise prejudicing the interests of a person in relation to the claim which that person is making or may make, the transaction may be set aside by the court as a transaction defrauding creditors. An application to a Northern Irish Court for an order to set aside the transaction may be made by an administrator, a liquidator and, subject to certain conditions, the UK Financial Conduct Authority and the UK Pensions Regulator. In addition, any person who is, or who is capable of being, prejudiced by the transaction may (with the leave of a Northern Irish Court in the case of a company in administration or liquidation) also bring an application to set aside such transaction. There is no time limit in the Northern Irish insolvency legislation within which the challenge must be made and the relevant company does not need to be insolvent at the time of the transaction. If a Northern Irish Court determines that the transaction was a transaction defrauding creditors, a Northern Irish Court can make such orders as it thinks fit to restore the position to what it would have been if the transaction had not been entered into and to protect the interests of the victims of the transaction. The relevant court order may affect the property of, or impose any obligation on, any person, whether or not he is the person with whom the transaction was entered into. However, such an order will not prejudice any interest in property which was acquired from a third-party in good faith, for value and without notice of the relevant circumstances and will not require a person who received a benefit from the transaction in good faith, for value and without notice of the relevant circumstances, to pay any sum unless such person was a party to the transaction.

### *Avoidance of Floating Charge*

Under Northern Irish insolvency law, if a Northern Irish company is unable to pay its debts at the time of (or as a result of) granting a floating charge, and the floating charge was granted within the specified period referred to below, then such floating charge can be avoided except to the extent of the value of the money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant Northern Irish company at the same time as or after the creation of the floating charge.

The requirement for the Northern Irish company to be insolvent at the time of (or as a result of) granting the floating charge does not apply where the floating charge is granted to a connected person. If the floating charge is granted to a connected person, and the floating charge was granted within the specified period referred to below, then the floating charge is invalid except to the extent of the value of the money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant Northern Irish company at the same time as or after the creation of the floating charge, whether the relevant Northern Irish company is solvent or insolvent.

The granting of the floating charge can be challenged only if the relevant Northern Irish company enters into liquidation or administration proceedings within a period of one year (if the beneficiary is not a connected person) or two years (if the beneficiary is a connected person) from the date the relevant Northern Irish company grants the floating charge. However, if the floating charge qualifies as a “security financial collateral agreement” under the 2003 Regulations, the floating charge will not be subject to challenge as described in this paragraph.

## **Belgium**

### ***Insolvency Proceedings***

To the extent any Guarantor is organized under the laws of Belgium (a “Belgian Guarantor”), and provided Belgium is the territory in which the centre of such Belgian Guarantor’s main interests is situated, main insolvency proceedings may be initiated in Belgium. The above also applies to any debtor for which Belgium is the territory in which the centre of such debtor’s main interests is situated. Such proceedings would then be governed by Belgian law. Under certain circumstances, Belgian law also allows bankruptcy proceedings to be opened in Belgium over the assets of companies whose centre of main interests is not situated in Belgium. The following is a brief description of certain aspects of Belgian insolvency law to the extent relevant in the context of the present transaction.

Belgian insolvency laws provide for two main insolvency proceedings for enterprises: judicial reorganization proceedings (*gerechtelijke reorganisatie/réorganisation judiciaire*) and bankruptcy proceedings (*faillissement/faillite*).

Both types of insolvency proceedings are governed by Book XX “Insolvency of enterprises” of the Belgian Code of Economic Law (the “Belgian Insolvency Act”).

### ***Judicial Reorganization***

A debtor (and in limited circumstances, its creditors, interested third parties or the public prosecutor) may file a petition for judicial reorganization if the continuity of the enterprise is at risk, whether immediately or in the future. If the net assets of the company have fallen under 50% of the company’s registered capital (*maatschappelijk kapitaal/capital social*), the continuity of the enterprise is always presumed to be at risk. A state of bankruptcy of the debtor does not exclude that a petition for judicial reorganization is filed.

As from the filing of the petition and as long as the court overseeing a judicial reorganization has not issued a ruling on the reorganization petition, the debtor cannot be declared bankrupt (save in case the debtor files a declaration of bankruptcy itself) or wound up by court order. In addition, during the period between the filing of the petition and the court’s decision, with few exceptions, none of the debtor’s assets may be disposed of by any of its creditors as a result of the enforcement of any security interests that such creditors may hold with respect to such assets.

The Belgian Insolvency Act provides that, within a period of 15 days as from the filing of the petition, the court will examine such petition, and within eight days following such examination and subject to the satisfaction of the filing conditions, the court will declare the judicial reorganization procedure open, allowing a temporary moratorium for a maximum period of six months. At the request of the debtor (or of the judicial trustee in case of a procedure of transfer under judicial authority) and pursuant to the report issued by the delegated judge, the moratorium period can thereafter be extended up to twelve months as from the start of the moratorium period. In exceptional circumstances (such as due to the size of the business, the complexity of the case or the impact of the procedure on employment), and in the interest of the creditors, the court may order an additional extension of the moratorium period for six months.

The granting of the moratorium operates as a stay. No enforcement measures with respect to pre-existing claims in the moratorium can be continued or initiated against any of the debtor’s movable and immovable assets from the time that the moratorium is granted until the end of the period, with few exceptions. During the moratorium, no attachments can be made with regard to pre-existing claims. During the moratorium, the debtor can also not be declared bankrupt, except upon declaration of the debtor itself and, if the debtor is a legal entity, judicial dissolution will not be possible during this period.

Conservatory attachments that existed prior to the opening of the judicial reorganization retain their conservatory character, but the court may order their release, provided that such release does not have a material adverse effect on the situation of the creditor concerned. If the date for the forced sale of moveable or immovable property has already been set, such sale may, under certain conditions, be continued.

If receivables are pledged by the debtor in favor of a creditor prior to the opening of the judicial reorganization procedure, such pledge will not be affected by the moratorium, provided that the receivables are pledged specifically to that creditor from the moment when the pledge is created. The holder of such pledged receivables is permitted to take enforcement measures against the estate of the initial counterparty of the debtor (such as the debtor’s customers) during the moratorium. A pledge on financial instruments within the meaning of the Financial Collateral Act of December 15, 2004 (the “Belgian Financial Collateral Act”), such as shares in the Belgian Guarantor, can be enforced notwithstanding the enforcement prohibition imposed by the moratorium (unless considered an abuse of right). In the case of a pledge on bank accounts, the enforcement prohibition applies, save in the event of payment default or if certain other conditions are met. Personal guarantees granted by third parties in favor of the debtor’s creditors are not covered by the enforcement prohibition imposed by the moratorium, nor are the debts payable by co debtors, subject to certain exceptions or qualifications in respect of guarantees granted by individuals. The moratorium also does not prevent the voluntary payment by the debtor of claims covered by the moratorium, to the extent such payment is necessary for the continuity of the enterprise.

During the judicial reorganization proceedings, the board of directors and management of the debtor continue to exercise their management functions, albeit under the limited supervision of the court. However, upon request of the debtor, the court may appoint a judicial mediator (*ondernemingsbemiddelaar/médiateur d’entreprise*) to facilitate the restructuring of all or part of its assets or its activities. In addition, upon request of any interested party or the public prosecutor, in the event of



manifestly grave shortcomings of the debtor or one of its corporate bodies threatening the continuity of the enterprise facing difficulties or its economic activities and provided such measure can preserve such continuity, the court may appoint a judicial administrator (*gerechtsmandataris/mandataire de justice*). Finally, in the event of manifestly gross error of the debtors or one of its corporate bodies, the court may replace them with a temporary administrator (*voorlopig bewindvoerder/administrateur provisoire*) for the duration of the moratorium.

The reorganization procedure aims to preserve the continuity of a company as a going concern. Consequently, the initiation of the procedure does not terminate any contracts, and contractual provisions which provide for the early termination or acceleration of the contract upon the initiation or approval of a reorganization procedure, and certain contractual terms such as default interest, may not be enforceable during such a procedure. Such enforcement prohibition applies, with a few exceptions, to close out netting provisions as well, if the judicial reorganization procedure affects (i) a corporate debtor which is not a public or financial legal entity in the meaning of the Belgian Financial Collateral Act or (ii) a public or financial legal entity where the creditor is not such an entity. Moreover, the Belgian Insolvency Act provides that a creditor may not terminate a contract on the basis of a debtor's default that occurred prior to the reorganization procedure if the debtor remedies such default within a 15 day period following the notification of such default after granting of the moratorium.

As an exception to the general rule of continuity of contracts, the debtor may cease performing a contract during the reorganization proceedings, provided that the debtor notifies the creditor and the decision is necessary for the debtor to be able to propose a reorganization plan to its creditors or to transfer all or part of the company or its assets. The exercise of this right does not prevent the creditor from suspending the performance of its own obligations. The creditor can however not terminate the agreement solely on the ground that the debtor has suspended the performance of its own obligations.

The Belgian Insolvency Act provides for three types of reorganization: (i) an amicable settlement between the debtor and two or more of its creditors; (ii) a collective agreement; or (iii) the transfer of (part of) the activities. The type of reorganization may change during the proceedings and may also depend on the position of the court and/or third parties.

In the case of an amicable settlement, only the parties to such amicable settlement will be bound by the terms they have agreed. Such in-court agreement requires unanimity among the creditors concerned. The debtor may petition the court to grant a grace period in respect of its payment obligations, e.g., in relation to interest payments, pending the negotiation of the agreement. Once agreement is reached, the court will record it. The court order confirming the existence of an amicable settlement will be published, without disclosing the content of the agreement, and its terms will only be binding upon the creditors that have agreed to it.

In the case of a judicial reorganization by collective agreement, the creditors agree to a reorganization plan during the reorganization procedure. The plan may include measures such as the reduction or rescheduling of liabilities and interest obligations and the swap of debt into equity. The reorganization plan must be filed with the electronic registry managed by the Belgian bar associations ([www.regsol.be](http://www.regsol.be)) at least 20 days in advance of the date on which the creditors will vote its approval. The court needs to ratify the reorganization plan prior to it taking effect. A reorganization plan approved by a double majority of the creditors (both in headcount and in value of the claims) and by the court will bind all creditors, including those who voted against it or did not vote and whether secured or not, although only limited measures can be imposed by such reorganization plan on secured creditors without their individual consent. The court may refuse ratification if the formalities were not complied with, or if the proposed reorganization plan violates public policy.

To enable the court to correctly invite all creditors to the vote, within a period of eight days following the ruling declaring the judicial reorganization proceedings open, the debtor must inform each of its creditors individually of the amount of their claims against the debtor as recorded in the books of the debtor, as well as of details regarding security interests, if applicable. Creditors with pre-existing claims, as well as any other interested party that claims to be a creditor, can challenge the amounts and the ranking of the secured claims declared by the debtor. The court can determine the disputed amounts and the ranking of such claims on a preliminary basis for the purpose of the reorganization procedure. In addition, the court can at any moment, in case of absolute necessity and upon request by the debtor or the creditor, change its decision determining the amount or the ranking of the claim on the basis of new elements. If a creditor has not challenged the amount and the ranking of its claim at least one month in advance of the date on which



the creditors will vote on the approval of the reorganization plan, the amount of its claim will remain unchanged for voting purposes as well as for the purposes of the reorganization plan.

The debtor must use the moratorium period to complete and finalize a reorganization plan, with the assistance of the court appointed administrator, if applicable. The plan may include measures such as the reduction or rescheduling of liabilities and interest obligations and the swap of debt into equity and may be based on a limited (justified) differentiated treatment of certain various categories of liabilities.

The court ordered transfer of all or part of the debtor's enterprise can be requested by the debtor in its petition or at a later stage in the procedure. It can be requested by the public prosecutor, by a creditor or by any party who has an interest in acquiring, in whole or in part, the debtor's enterprise, and the court can order such transfer in specific circumstances.

The court ordered transfer will be organized by a judicial administrator (*gerechtsmandataris/mandataire de justice*) appointed by the court. Following the transfer, the recourse of the creditors will be limited to the transfer price, subject to some limited exceptions.

### **Bankruptcy**

Bankruptcy proceedings may be initiated by the debtor, by unpaid creditors, upon the initiative of the public prosecutor's office, by the provisional administrator of the debtor's assets, by the liquidator of the debtor's assets or by the liquidator of "main insolvency proceedings" opened in another EU Member State (other than Denmark) in accordance with the Recast Insolvency Regulation. Once the court ascertains that the requirements for bankruptcy are met, the court will establish a date by which all creditors' claims must be submitted to the court for verification.

Conditions for a bankruptcy order (*faillietverklaring/déclaration de faillite*) are that the debtor must be in a situation of sustained cessation of payments (*op duurzame wijze opgehouden hebben te betalen/cessation de paiements de manière persistante*) and be unable to obtain further credit (*wiens krediet geschokt is/ébranlement de crédit*). Cessation of payments is generally accepted to mean that the debtor is not able to pay its debts as they fall due. Such a situation must be persistent and not merely temporary. In bankruptcy, the debtor loses all authority and decision rights concerning the management of the bankrupt business. The bankruptcy receiver (*curator/curateur*), appointed by the court, becomes responsible for the operation of the business and implements the sale of the debtor's assets, the distribution of the sale proceeds to creditors and the liquidation of the debtor. The rights of creditors in the process are limited to being informed of the course of the bankruptcy proceedings on a regular basis by the receiver. Creditors may oppose the sale of assets by bringing an action before the court, or may request the temporary continued operation of the business.

The receiver must decide whether or not to continue performance of ongoing contracts (i.e., contracts existing before the bankruptcy order). The receiver may only decide not to continue performance of one or several ongoing contracts when the administration of the estate requires this and such decisions will not impair any rights *in rem* of third parties that are enforceable against the estate. The other party to an ongoing contract may demand the receiver to take a decision within fifteen days. If no extension of the 15 days term is agreed upon or if the receiver does not take any decision, the ongoing contract is presumed to be terminated after the expiration of the 15 days term. If the receiver decides not to continue performance of an ongoing contract or if an ongoing contract is terminated due to the expiration of the fifteen days term, the other party to the contract may be entitled to claim damages, in which case its claim will rank *pari passu* with claims of all other unsecured creditors.

The receiver may elect to continue the business of the debtor, provided the receiver obtains the authorization of the court and such continuation does not cause any prejudice to the creditors. However, two exceptions apply:

- the parties to an agreement may contractually agree that the occurrence of a bankruptcy constitutes an early termination or acceleration event; and
- *intuitu personae* contracts (i.e., contracts whereby the identity of the other party constitutes an essential element upon the signing of the contract) are automatically terminated as of the bankruptcy judgment since the debtor is no longer responsible for the management of the company. Parties can agree to continue to perform under such contract.

As a general rule, the enforcement rights of individual creditors are suspended upon the rendering of the court order opening bankruptcy proceedings, and after such order is made, only the bankruptcy trustee

may proceed against the debtor and liquidate its assets. However, such suspension does not apply to a pledge on financial instruments or cash held on account falling within the scope of the Belgian Financial Collateral Act. Further exceptions exist with regard to estate debts (*boedelschulden/dettes de la masse*).

For creditors with claims secured by movable assets, such suspension would normally be limited to the period required for the verification of the claims. At the request of the bankruptcy receiver, the suspension period may be extended for up to one year from the bankruptcy judgment. Such extension requires a specific order of the court which can only be made if the further suspension will allow for a realization of the assets in the interest of all creditors without prejudicing the secured creditors and provided that those secured creditors have been given the opportunity to be heard by the court.

For creditors with claims secured by immovable assets, the intervention of the bankruptcy receiver is necessary to pursue the sale of the assets. The receiver will do so upon an order of the court, given either at its request or at the request of a mortgagee. A first-ranking mortgagee will generally be entitled to pursue the enforcement of its mortgage as soon as the report of claims has been finalized; the court may suspend such enforcement for a period of not more than one year from the date of the bankruptcy if the suspension will allow for a realization of the assets without prejudicing the mortgagee provided that the mortgagee has been given the opportunity to be heard by the court. However, a pledge on financial instruments or cash held on accounts can be enforced during the suspension period.

If a security interest, such as a pledge, has been granted over assets that, at the time of opening of an insolvency proceeding, are located in another EU Member State, the rights the creditor has under such security shall, in accordance with the Recast Insolvency Regulation, not be affected by the opening of such insolvency proceedings.

As from the date of the bankruptcy judgment, no further interest accrues against the bankrupt debtor on its unsecured debt, or debts secured by a general privilege, like tax administration or social security. The debts of the bankrupt estate generally will be ranked as to priority on the basis of complex rules. The following is a general overview of only the main principles:

- Estate debt: Costs and indebtedness incurred by the receiver during the bankruptcy proceedings, the so-called “estate debts,” have senior priority. In addition, if the receiver has contributed to the realization and enforcement of secured assets, such costs will be paid to the receiver in priority out of the proceeds of the realized assets before distributing the remainder to the secured creditors.
- Security interests: Creditors that hold a security interest have a priority right over the secured asset (whether by means of appropriation of the asset or on the proceeds upon realization).
- Privileges: Creditors may have a particular privilege on certain or all assets (such as tax claims, claims for social security premiums, etc.). Privileges on specific assets rank before privileges on all assets of the debtor. Certain privileges prevail over the security interests.
- Unsecured creditors (*pari passu*): Once all estate debts and creditors having the benefit of security interests and privileges have been satisfied, the proceeds of the remaining assets will be distributed by the receiver among the unsecured creditors who rank *pari passu* (unless a creditor agreed to be subordinated).
- Subordinated creditors will receive the remainder (if any).

### ***Subsidiary Guarantee/Collateral***

The grant of a Guarantee or Senior Notes Collateral by a Belgian Guarantor for the obligations of another group company must fall within the grantor’s legal and corporate purpose and be for the own corporate benefit of the Belgian Guarantor and comply with any applicable financial assistance rules. Corporate benefit is not a well-defined concept under Belgian law and its interpretation is left to the courts and legal authors. The corporate benefit rules and their application in the context of granting guarantees or collateral for the benefit of a group company are not clearly established under Belgian law and there is only limited case law on this issue.

The question of corporate benefit must be determined on a case by case basis by reference to the prevailing factual circumstances. Consideration has to be given to any direct and/or indirect benefit that the company would actually derive from the transaction and is particularly relevant for upstream or cross stream guarantees and collateral. It is generally taught by legal scholars that such benefit should be proportionally greater than the risk for the company resulting from the granting and/or enforcement of the

guarantee concerned. The financial support granted by the company should not exceed its financial capabilities. Belgian case law does not offer clear guidelines on when a group transaction is within the individual group member's corporate benefit and when aforementioned conditions are met.

Whether or not the corporate benefit requirement is met is a matter of fact to be assessed by the board of directors of the Belgian Guarantor. The corporate benefit justification by the company's board of directors will be subject to only a "marginal review" by the courts; in insolvency situations, however, the courts can be expected to take a more critical view.

If the corporate benefit requirement is not met, the directors of the company may be held liable under civil law (i) by the company for negligence in the management and (ii) by third parties in tort and under criminal law in certain specific circumstances (i.e., where the specific facts can be qualified as "abuse of company goods" (*misbruik van vennootschapsgoederen/abus de bien sociaux*)). Moreover, the guarantee or security interest could be declared null and void and, under certain circumstances, the creditor that benefits from the guarantee or security interest could be held liable if the corporate benefit requirement is not met and the creditor knew or should have known this. Alternatively, the guarantee or collateral could be reduced to an amount corresponding to the corporate benefit. These rules have been seldom tested under Belgian law, and there is only limited case law on this issue.

In order to enable Belgian subsidiaries to grant a guarantee and collateral to secure liabilities of a direct or indirect parent or sister company without the risk of violating Belgian rules on corporate benefit, it is standard market practice for indentures, credit agreements, guarantees and security documents to contain "limitation language" in relation to subsidiaries incorporated or established in Belgium. Accordingly, the Guarantee of the Belgian Guarantor will be limited accordingly. Including such limitation language is, however, not conclusive in determining or upholding the corporate benefit.

The grant of a guarantee or collateral by a Belgian company must also be within or serve the corporate purpose and statutory purpose of the Belgian company as described in its articles of association.

#### ***Financial Assistance***

Any guarantee granted by a Belgian Guarantor shall not include and shall not extend to cover any payment obligation in respect of the proceeds of the Additional Notes arising out of amounts used to fund directly or indirectly the acquisition of shares of such Belgian Guarantor to the extent that by assuming such obligation the Belgian Guarantor would be deemed to be providing prohibited financial assistance to the acquisition of its own shares or capital participations, as prohibited under article 329 or 629 of the Belgian Companies Code dated 7 May 1999, as amended or replaced from time to time, or Article 5:152 or 7:22 of the Belgian Code of Companies and Associations dated 23 March 2019, as amended from time to time, whichever is applicable. Therefore, such payment obligations shall be excluded from the concept of guarantee by a Belgian Guarantor. Any guarantees or security interest granted by a Belgian Guarantor which constitute a breach of the provisions on financial assistance as defined by article 329 or 629 of the Belgian Companies Code dated 7 May 1999, as amended or replaced from time to time, or Article 5:152 or 7:22 of the Belgian Code of Companies and Associations dated 23 March 2019, as amended from time to time, whichever is applicable, are not enforceable.

#### ***Hardening Period and Fraudulent Transfer***

In the event of bankruptcy proceedings governed by Belgian law, the bankruptcy receiver may challenge certain transactions that have been concluded or performed by the debtor during the so-called "hardening period."

In principle, the cessation of payments (which constitutes a condition for filing for bankruptcy) is deemed to have occurred as of the date of the bankruptcy order. The court issuing the bankruptcy order may determine, based on serious and objective indications, that the cessation of payments occurred on an earlier date. Such earlier date may not be earlier than six months before the date of the bankruptcy order, except in the case where the bankruptcy order relates to a company that was dissolved more than six months before the date of the bankruptcy order in circumstances suggesting an intent to defraud its creditors, in which case the date of cessation of payments may be determined as being the date of such decision to dissolve the company. The period from the date of cessation of payments up to the declaration of bankruptcy is referred to as the "hardening period" (*verdachte periode/période suspecte*).

The transactions entered into or performed during the hardening period which may be declared ineffective against third parties include, among others, (i) gratuitous transactions or transactions entered into at an

undervalue, (ii) payments for debts which are not due, (iii) payments other than in cash for debts due, and (iv) security interests provided for pre-existing debts (save for any security granted during the suspension period of judicial reorganization proceedings).

Other transactions entered into or performed during the hardening period may be declared ineffective against third parties provided that the counterparty was aware of the debtor's cessation of payment.

In particular, a guarantee or security interests entered into during the hardening period may be declared ineffective against third parties (i) if it is regarded as having been granted gratuitously, unbalanced or at an undervalue, (ii) if the beneficiaries of the guarantee or security interests were aware of the Belgian Guarantor's cessation of payments or (iii) if it is granted to secure pre-existing debts.

If the guarantee or security interests granted by the Belgian Guarantor were successfully voided (based on the above), noteholders would cease to have any claim in respect thereof and could be under an obligation to repay any amounts received pursuant to such guarantee or the enforcement proceeds of the security interests.

Furthermore, even in the absence of bankruptcy proceedings, a third-party creditor may obtain a court ruling that an act or transaction (such as a guarantee) is not enforceable against it if it can establish that the challenged act or transaction was effected with the fraudulent intent to adversely affect its position as an existing creditor (*actio pauliana*).

Regardless of fraudulent intent, registration of a security interest after cessation of payments can also be declared ineffective against third parties, when more than 15 days have passed in between the date of the deed and the date of registration.

### ***Recognition and Enforcement***

Courts may condition the enforcement of a security interest and/or guarantee upon the evidence that the creditor has a final and undisputed claim triggering the foreclosure of the security interest and/or guarantee. Enforcement of security interests and/or guarantees may be hindered by conflict of law and/or conflict of jurisdiction issues and may not breach any public policy provision and/or mandatory legal provisions. Courts may require a sworn translation in French or Dutch of the English documents which they may review.

## TRANSFER RESTRICTIONS

*You are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of any of the Additional Notes and/or the Senior Secured Notes Guarantees offered hereby.*

The Additional Notes and the Senior Secured Notes Guarantees thereof (together, the “Securities”) have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to U.S. persons unless the Securities are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act and the securities laws of any applicable jurisdiction is available. Accordingly, the Securities are being offered and sold only (i) to qualified institutional buyers (as defined in Rule 144A, “QIBs”) in reliance on Rule 144A and (ii) outside the United States to non-U.S. persons in an offshore transaction (in each case, as defined in Regulation S) in reliance on Regulation S.

We have not registered and will not register the Securities under the Securities Act and, therefore, the Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, we are offering and selling the Securities to the Initial Purchasers for re offer and resale only:

- in the United States to QIBs in compliance with Rule 144A; and
- outside the United States to non-U.S. persons in an offshore transaction in accordance with Regulation S and, in this case, only to investors who, if resident in a Member State of the European Economic Area, are not retail investors, each defined as a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

We use the terms “U.S. person,” “offshore transaction” and “United States” with the meanings given to them in Regulation S.

Each purchaser of the Securities hereunder (other than each of the Initial Purchasers) will be deemed to have acknowledged, represented, warranted and agreed with us and the Initial Purchasers as follows (terms used in this paragraph that are defined in Rule 144A and Regulation S are used herein as defined therein):

- (1) it understands and acknowledges that (i) the Securities have not been registered under the Securities Act or any other applicable securities laws and that the Securities are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A under the Securities Act and (ii) the Securities may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act and any other applicable securities laws or pursuant to an exemption therefrom and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below;
- (2) it is either (a) a QIB and is aware that any sale of these Securities to it will be made in reliance on Rule 144A under the Securities Act, and such acquisition will be for its own account or for the account of another QIB, or (b) it is a non-U.S. person and it is purchasing the Securities outside the United States in an offshore transaction in accordance with Regulation S;
- (3) it acknowledges that none of the Senior Secured Notes Issuer, the Group, the Initial Purchasers, or any person representing any of the foregoing, has made any representation to it with respect to us or the offer or sale of any Securities, other than the information contained in or incorporated by reference in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Securities. It has had access to such financial and other information concerning us and the Securities as it has deemed necessary in connection with its decision to purchase any of the Securities, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers. It acknowledges that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this offering memorandum or the information incorporated by reference herein;
- (4) it is purchasing the Securities for its own account, or for an account with respect to which it exercises sole investment discretion and for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in



violation of the Securities Act or any state or other securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Securities to a QIB pursuant to Rule 144A or to non-U.S. persons in offshore transactions pursuant to Regulation S;

- (5) it understands and agrees on its own behalf and on behalf of any investor account for which it is purchasing the Securities, and each subsequent holder of the Securities by its acceptance thereof will be deemed to agree, that if in the future it decides to resell, pledge or otherwise transfer any Securities or any beneficial interests in any Securities, it will do so prior to the date which is, in the case of Securities offered to QIBs, one year after the later of the original issue date of such Securities, the original issue date of the issuance of any additional securities and the last date on which the issuer or any affiliate of the issuer was the owner of such Security (or any predecessor of such Security) and, in the case of Securities offered to non-U.S. persons in accordance with Regulation S, 50 days after the later of the original issue date of such Security and the date on which such Security (or any predecessor of such Security) was first offered to persons other than distributors (as defined in Rule 902 of Regulation S) in reliance on Regulation S only (a) to the Issuers, the Guarantors or any subsidiary thereof, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) for so long as such Security is eligible for resale pursuant to Rule 144A under the Securities Act, to a person it reasonably believes is a “qualified institutional buyer” as defined in Rule 144A under the Securities Act that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that the transfer is being made in reliance on Rule 144A under the Securities Act, (d) pursuant to offers and sales to non-U.S. persons that occur outside the United States in offshore transactions in compliance with Regulation S under the Securities Act or (e) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to compliance with any applicable state securities laws and any applicable local laws and regulations, and further subject to the issuer’s right prior to any such offer, sale or transfer pursuant to clause (e) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to it, including a certificate of transfer in the form appearing on the reverse of such Security;

- (6) it understands that the Securities will bear a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT. BY ITS ACQUISITION HEREOF, THE HOLDER OF THIS SECURITY (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) (“QIB”) OR (B) IT IS A NON-U.S. PERSON ACQUIRING THIS SECURITY OUTSIDE THE UNITED STATES IN AN “OFFSHORE TRANSACTION” (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY OR A BENEFICIAL INTEREST IN THIS SECURITY, PRIOR TO THE DATE WHICH IS [IN THE CASE OF SECURITIES SOLD TO QIBs: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF SUCH SECURITIES, THE ORIGINAL ISSUE DATE OF THE ISSUANCE OF ANY ADDITIONAL SECURITIES AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY),] [IN THE CASE OF SECURITIES SOLD TO NON-U.S. PERSONS IN ACCORDANCE WITH REGULATION S: 50 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF THIS SECURITY AND THE DATE ON WHICH SUCH SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF REGULATION S) IN RELIANCE ON REGULATION S] ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THIS

SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS, AND FURTHER SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO IT, INCLUDING A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE REVERSE OF THIS SECURITY; AND (3) AGREES THAT IT WILL TRANSFER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

If you purchase Securities, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Securities as well as to holders of these Securities;

- (7) it agrees that it will give to each person to whom it transfers the Securities notice of any restrictions on the transfer of such Securities;
- (8) it acknowledges that the Registrar will not be required to accept for registration or transfer any Securities acquired by it except upon presentation of evidence satisfactory to us and the Registrar that the restrictions set forth therein have been complied with;
- (9) it acknowledges that we, the Initial Purchasers and others will rely upon the truth and accuracy of its acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Securities are no longer accurate, it shall promptly notify the Initial Purchasers. If it is acquiring any Securities as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations, warranties and agreements on behalf of each such investor account; and
- (10) it understands that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would result in a public offering of the Securities or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Securities in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Securities will be subject to the selling restrictions set forth under “*Transfer Restrictions*” and “*Plan of Distribution*.”

## PLAN OF DISTRIBUTION

The Senior Secured Notes Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed to purchase from the Senior Secured Notes Issuer, the entire principal amount of the Takeda Temporary Notes and the Walmark Tap Notes. The sale of the Takeda Temporary Notes and the Walmark Tap Notes will be made pursuant to a purchase agreement among the Senior Secured Notes Issuer and the Initial Purchasers to be dated the date of the final offering memorandum (together, the “Purchase Agreement”).

The obligations of the Initial Purchasers under the Purchase Agreement, including their agreement to purchase the Takeda Temporary Notes and the Walmark Tap Notes from the Senior Secured Notes Issuer are several and not joint. The Purchase Agreement provides that the Initial Purchasers will purchase all the Takeda Temporary Notes and the Walmark Tap Notes if they purchase any of them.

The Initial Purchasers initially propose to offer the Takeda Temporary Notes and the Walmark Tap Notes for resale at the issue prices that appear on the cover of this offering memorandum. After the initial Offering, the Initial Purchasers may change the prices at which the Takeda Temporary Notes and the Walmark Tap Notes are offered and any other selling terms at any time without notice. The Initial Purchasers may offer and sell the Takeda Temporary Notes and the Walmark Tap Notes through certain of their affiliates, including in respect of sales into the United States. To the extent that any Initial Purchaser that is not a U.S. registered broker dealer intends to effect any sales of the Takeda Temporary Notes and the Walmark Tap Notes in the United States, it will do so through one or more U.S. registered broker dealer affiliates as permitted by guidelines promulgated by the Financial Industry Regulatory Authority. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

Persons who purchase the Takeda Temporary Notes and the Walmark Tap Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Senior Secured Notes Issuer has agreed to pay the Initial Purchasers certain customary fees for their services in connection with this Offering and to reimburse them for certain out of pocket expenses.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of Takeda Temporary Notes and the Walmark Tap Notes are subject to, among other conditions, the delivery of certain legal opinions by counsel. The Purchase Agreement also provides that, if an Initial Purchaser defaults, the purchase commitments of the non-defaulting Initial Purchasers may be increased or, in some cases, the Offering may be terminated.

Certain of the Sponsors or their affiliates may place a purchase order for and be allocated the Takeda Temporary Notes and the Walmark Tap Notes at a purchase price per Takeda Temporary Note and Walmark Tap Note, as applicable, equal to the issue price set forth on the cover page of this offering memorandum, subject to a pass through of the Initial Purchasers’ discount in respect of the Takeda Temporary Notes and the Walmark Tap Notes purchased by such persons.

The Purchase Agreement provides that the Senior Secured Notes Issuer and each of the Guarantors will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Purchase Agreement, any debt securities of, or guaranteed by, the Senior Secured Notes Issuer and the Guarantors or any of their subsidiaries that are substantially similar to the Additional Notes during the period from the date of the Purchase Agreement through and including the date falling 45 days after the closing of the Offering without the prior written consent of Citigroup Global Markets Limited and Nomura International plc.

The Additional Notes and the Senior Secured Notes Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except to qualified institutional buyers in reliance on Rule 144A and to non-U.S. persons in offshore transactions in reliance on Regulation S. Until 40 days after the later of (i) the commencement of the Offering and (ii) the New Issue Date of the Takeda Temporary Notes and the Walmark Tap Notes, an offer or sale of the Takeda Temporary Notes and the Walmark Tap Notes initially sold in reliance on Regulation S within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the

Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Additional Notes are restricted as described under “*Notice to Certain Investors*” and “*Transfer Restrictions*.”

Each Initial Purchaser has represented, warranted and agreed that it:

- has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Additional Notes in circumstances in which section 21(1) of the FSMA does not apply to the Senior Secured Notes Issuer or any Senior Secured Notes Guarantor; and
- has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Additional Notes in, from or otherwise involving the United Kingdom.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the Initial Purchasers that would permit a public offering of the Additional Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Additional Notes in any jurisdiction where action for this purpose is required. Accordingly, the Additional Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Additional Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Additional Notes, the distribution of this offering memorandum and resale of the Additional Notes. See “*Transfer Restrictions*.”

The Senior Secured Notes Issuer has also agreed that it will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the Securities Act or the safe harbors of Rule 144A and Regulation S to cease to be applicable to the offer and sale of the Additional Notes.

The Existing Senior Secured Notes have been listed and admitted to dealing on the Official List of the Exchange. The Senior Secured Notes Issuer will apply, through their listing agent, for the listing of and permission to deal in the Additional Notes on the Official List of the Exchange, however, the Senior Secured Notes Issuer cannot assure you that such listing will be obtained or, if obtained, maintained.

The Initial Purchasers have advised us that they intend to make a market in the Additional Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the Additional Notes, and any market making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market making activity will be subject to the limits imposed by the Securities Act and the Securities Exchange Act of 1934, as amended (the “U.S. Exchange Act”). Accordingly, we cannot assure you that any market for the Additional Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Additional Notes at a particular time or at a price which will be favorable to you. See “*Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—Transfer of the Additional Notes will be restricted, which may adversely affect the value of the Additional Notes*.”

Under Rule 15c6 1 of the U.S. Exchange Act, trades in the secondary market generally are required to settle in two Business Days (as such term is used for purposes of Rule 15c6 1 of the U.S. Exchange Act) unless the parties to any such trade expressly agree otherwise. We expect that delivery of the € aggregate amount of the Walmark Tap Notes and € aggregate amount of the Takeda Temporary Notes will be made against payment on or about the date specified on the cover page of this offering memorandum, which will be business days following the date of pricing of the Walmark Tap Notes and the Takeda Temporary Notes (this settlement cycle is being referred to as “T + ”). Accordingly, purchasers who wish to trade such Takeda Temporary Notes and the Walmark Tap Notes on the date of this offering memorandum will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Walmark Tap Notes and the Takeda Temporary Notes who wish to make such trades should consult their own advisors.



The Initial Purchasers may engage in over allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the U.S. Exchange Act. Over allotment involves sales in excess of the offering size, which creates a short position for the relevant Initial Purchaser. Stabilizing transactions permit the Initial Purchasers to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchases of the Takeda Temporary Notes and the Walmark Tap Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker or dealer when the Takeda Temporary Notes and the Walmark Tap Notes originally sold by that broker or dealer are purchased in a stabilizing or covering transaction to cover short positions.

In connection with the offering, the Stabilizing Manager, or a person acting on their behalf, may engage in transactions that stabilize, maintain or otherwise affect the price of the Takeda Temporary Notes and the Walmark Tap Notes. Specifically, the Stabilizing Manager may bid for and purchase Takeda Temporary Notes and the Walmark Tap Notes in the open markets for the purpose of pegging, fixing or maintaining the price of the Takeda Temporary Notes and the Walmark Tap Notes. The Stabilizing Manager may also over allot the Offering, creating a syndicate short position, and may bid for and purchase Takeda Temporary Notes and the Walmark Tap Notes in the open market to cover the syndicate short position. In addition, the Stabilizing Manager may bid for and purchase Takeda Temporary Notes and the Walmark Tap Notes in market making transactions as permitted by applicable laws and regulations and impose penalty bids. These activities may stabilize or maintain the respective market price of the Takeda Temporary Notes and the Walmark Tap Notes above market levels that may otherwise prevail. The Stabilizing Manager is not required to engage in these activities, and may end these activities at any time. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Takeda Temporary Notes and the Walmark Tap Notes. See *“Risk Factors—Risks Relating to the Additional Notes and the Senior Secured Notes—Transfer of the Additional Notes will be restricted, which may adversely affect the value of the Additional Notes.”*

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Takeda Temporary Notes and the Walmark Tap Notes to be higher than it would otherwise be in the absence of these transactions. These transactions may begin on or after the date on which adequate public disclosure of the terms of the offering of the Takeda Temporary Notes and the Walmark Tap Notes is made and, if commenced, may be discontinued at any time at the sole discretion of the Initial Purchasers. If these activities are commenced, they must end no later than the earlier of 30 days after the date of issuance of the Takeda Temporary Notes and the Walmark Tap Notes and 60 days after the date of the allotment of the Takeda Temporary Notes and the Walmark Tap Notes. These transactions may be effected in the over the counter market or otherwise.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Initial Purchasers or their respective affiliates from time to time have provided in the past, are currently providing, or may in the future provide, investment banking, financial advisory, commercial banking, various lending, hedging, guarantee or other banking or budgeting services to us and our affiliates under bilateral agreements or local facilities in the ordinary course of business, for which they have received or may receive customary fees and commissions. The Initial Purchasers or their affiliates may also receive allocations of the Takeda Temporary Notes and the Walmark Tap Notes. In addition, J.P. Morgan Limited, JPMorgan Chase Bank, N.A. London Branch, Deutsche Bank AG, London Branch, ING Bank NA., a branch of ING-DiBa AG, London Branch, Barclays Bank PLC, Citigroup Global Markets Limited, Citibank N.A. London, Jefferies Finance Europe, SCSp, Nomura Bank International plc, UBS AG, London Branch, UBS Europe SE (as successor in title to UBS Limited), Commerzbank Aktiengesellschaft and Société Générale S.A. Frankfurt Branch or their respective affiliates are acting as mandated lead arrangers and original lenders, as applicable under the Senior Secured Credit Facilities Agreement. The Senior Secured Credit Facilities is planned to be supplemented by an additional senior term loan facility proceeds of which will be used for the Acquisitions. Barclays Bank PLC is acting as agent under the Senior Secured Credit Facilities. The Initial Purchasers and their respective affiliates may act as counterparties in hedging arrangements. Société Générale (or one of its affiliates) provides lending services to STADA under various local facilities. In connection with their services in such capacities, the Initial Purchasers have received, or will receive, customary fees.

In the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative



securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and instruments of ours or our affiliates. If the Initial Purchasers or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, the Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Additional Notes offered hereby. Any such short positions could adversely affect future trading prices of the Additional Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and short positions in such securities and instruments.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

### Germany

The Senior Secured Notes Issuer and certain of the Guarantors are incorporated under the laws of Germany. Our directors and executive officers live outside the United States. Virtually all of our assets and the assets of our directors and executive officers are located outside the United States. As a result, although we have appointed an agent for service of process under the Indentures and the Takeda Temporary Indenture governing the Additional Notes, it may be difficult for you to serve process on those persons or us in the United States or to enforce judgments obtained in U.S. courts against them or us based on civil liability provisions of the securities laws of the United States.

There is doubt as to the enforceability in Germany of civil liabilities based on federal or state securities laws of the United States, either in an original action or in an action to enforce a judgment obtained in U.S. federal or state courts. The United States and the Federal Republic of Germany currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. The enforceability of final judgments therefore may depend on the laws of the relevant U.S. state and federal laws of the United States. Consequently, a final judgment for payment given by any federal or state court in the United States, whether or not predicated solely upon U.S. federal or state securities laws, would not automatically be enforceable in Germany. A final judgment by a U.S. federal or state court, however, may be recognized and enforced in Germany in an action before a court of competent jurisdiction in accordance with the proceedings set forth by the German Code of Civil Procedure (*Zivilprozessordnung*). In such an action, a German court generally will not reinvestigate the merits of the original matter decided by a U.S. court, except as noted below.

German courts will, in particular, not recognize and enforce such judgments if the judgment is not final under applicable U.S. federal or state law or if any of the reasons for excluding enforceability set forth in section 328(1) of the German Code of Civil Procedure exist:

- if, pursuant to German law, the U.S. federal or state court having rendered the foreign judgment did not have jurisdiction;
- if process has not been duly served or has not been served in a timely fashion to permit a defense, provided that the defendant did not actively participate in such process and pleads accordingly;
- if the judgment is incompatible with a prior judgment rendered by a German court or by a foreign court which is to be recognized in Germany;
- if the judgment, or the proceeding resulting in the judgment, to be recognized is incompatible with a proceeding in Germany which was pending (*rechtshängig*) before a German court before the U.S. federal or state court entered its judgment;
- if a recognition of the judgment would be obviously incompatible with essential principles of German law, in particular, if the recognition would be incompatible with the civil rights (*Grundrechte*) guaranteed by virtue of the German Constitution (*Grundgesetz*); and
- if reciprocity is not ensured (i.e., the U.S. federal or state courts would not recognize and enforce a comparable judgment by a German court in equivalent circumstances).

Subject to the foregoing, holders of the Additional Notes may be able to enforce judgments in civil and commercial matters obtained from U.S. federal or state courts in Germany. There is some German case law to the effect that reciprocity of the recognition of judgments is ensured in relation to claims relating to assets (*vermögensrechtliche Ansprüche*) with regard to various U.S. states. We cannot, however, assure you that attempts to enforce judgments in Germany will be successful. It is also doubtful whether a German court would accept jurisdiction and impose civil liability in an original action solely predicated by U.S. federal securities laws.

In addition, the recognition and enforcement of punitive damages are usually denied by German courts as incompatible with the essential principles of German law. Moreover, a German court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages.

Consequently, judgments awarding monetary damages under civil liabilities provisions of the U.S. federal securities laws may not be enforceable to the extent they provide for a compensation that would qualify as being of a penal or punitive nature.

German civil procedure differs substantially from U.S. civil procedure in a number of respects. In so far as the production of evidence is concerned, U.S. law and the laws of several other jurisdictions based on common law provided for pre-trial discovery, a process by which parties to the proceedings may, prior to trial, compel the production of documents by adverse or third parties and/or the deposition of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. No such pre-trial discovery process exists under German law.

In addition, it may under certain circumstances also not be possible for investors to effect service of process within Germany upon the German Notes Guarantors or those persons under the Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters of November 15, 1965 and the German law implementing such convention if such service were deemed to infringe German sovereignty or security, which may be the case if such service violated the fundamental principles of German law, in particular the civil rights (*Grundrechte*) guaranteed by virtue of the German Constitution (*Grundgesetz*). However, the German Constitutional Court (*Bundesverfassungsgericht*) held in 2013 that service may not be denied solely because the action before the U.S. court contains claims for punitive damages.

### **England and Wales**

The United States and England and Wales currently do not have a treaty between them providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognized or enforceable in England and Wales. In order to enforce any such U.S. judgment in England and Wales, fresh proceedings must first be initiated before a court of competent jurisdiction in England and Wales. In such an action, an English court would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it). Summary judgment is a procedure by which the English court can dispose of all or part of a claim without proceeding to a full trial. Recognition and enforcement of a U.S. judgment by an English court in such an action may be conditional upon (among other things) the following:

- the U.S. court having had jurisdiction over the original proceedings according to English conflicts of laws principles and rules of English private international law (in other words, it does not matter that the U.S. court had jurisdiction according to its own law, but instead whether it had jurisdiction according to the rules of English private international law);
- the U.S. judgment not having been given in breach of a jurisdiction or arbitration clause;
- the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a debt for a definite sum of money;
- the U.S. judgment not contravening English public policy, the European Convention on Human Rights or the Human Rights Act 1998 (or any subordinate legislation made thereunder, to the extent applicable);
- the U.S. judgment not being for a sum payable in respect of taxes, or other charges of a like nature, or in respect of a penalty or fine, or otherwise involving the enforcement of a non-English penal or revenue law;
- the U.S. judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained and not being otherwise in breach of the Protection of Trading Interests Act 1980;
- the U.S. judgment not having been obtained by fraud or in breach of English principles of natural or substantial justice;
- there not having been a prior inconsistent, determinative or conflicting judgment of an English or other non-U.S. court in respect of the same matter involving the same parties and/or prior inconsistent judgment given in a Hague Convention member state of the European Union or a Member State which the English Court must recognize and enforce under the Hague Convention Choice of Court Agreements of June 30, 2005 and/or Council Regulation (EC) 1215/2012 and/or the Lugano Conventions of 1988 and 2007;

- the U.S. judgment not having been wholly satisfied or not being enforceable by execution in the U.S.;
- the party seeking enforcement providing security for costs, if ordered to do so by the English court; and
- the English enforcement proceedings being commenced within six years from the date of the U.S. judgment.

Subject to the foregoing, investors may be able to enforce judgments in England and Wales in civil and commercial matters that have been obtained from U.S. federal or state courts. However, we cannot assure you that those judgments will be recognized or enforceable in England and Wales. In addition, it is questionable whether an English court would accept jurisdiction and impose civil liability if proceedings were commenced in England and Wales, instead of the United States, in an original action predicated solely upon U.S. federal securities laws. Further, it may not be possible to obtain a judgment in England and Wales or to enforce the judgment if the judgment debtor is subject to any insolvency or similar proceedings, or if the judgment debtor has any setoff or counterclaim against the judgment creditor. Finally, note that, in any enforcement proceedings, the judgment debtor may raise any counterclaim that could have been brought if the action had been originally brought in England and Wales unless the subject of the counterclaim was in issue and denied in the U.S. proceedings.

### **The Netherlands**

Centrafarm B.V. is incorporated under Dutch law (the “Dutch Guarantor”). As a result, it may be difficult for investors to enforce judgments obtained in non-Dutch courts against the Dutch Guarantor.

The Netherlands does not currently have a treaty with the United States providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any court in any federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, would not automatically be recognized or enforceable in The Netherlands. In order to obtain a judgment which is enforceable in The Netherlands, the claim must be re litigated before a competent Dutch court. Under current practice, the courts of The Netherlands may be expected to render a judgment in accordance with the judgment of the relevant U.S. court, provided that such judgment (i) is a final judgment and has been rendered by a court which has established its jurisdiction vis à vis the Dutch Guarantor on the basis of internationally accepted grounds of jurisdiction, (ii) has not been rendered in violation of elementary principles of fair trial, (iii) is not contrary to the public policy (*openbare orde*) of The Netherlands and (iv) is not incompatible with (a) a prior judgment of a Dutch court rendered in a dispute between the same parties, or (b) a prior judgment of a non-Dutch court rendered in a dispute between the same parties, concerning the same subject matter and based on the same cause of action, provided that such prior judgment is capable of being recognized in The Netherlands.

Moreover, a Dutch court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages. Enforcement and recognition of judgments of U.S. courts in The Netherlands are solely governed by the provisions of the Dutch Civil Procedure Code (*Wetboek van Burgerlijke Rechtsvordering*).

### **Republic of Ireland**

As the United States is not a party to a convention with the Republic of Ireland in respect of the enforcement of judgments, common law rules apply in order to determine whether a judgment of the courts of the State of New York is enforceable in the Republic of Ireland. A judgment of the courts of the State of New York will be enforced by the courts of the RoI if the following general requirements are met:

- (i) the courts of the State of New York must have had jurisdiction in relation to the particular defendant according to the Republic of Ireland conflict of law rules (the submission to jurisdiction by the defendant would satisfy this rule); and
- (ii) the judgment must be final and conclusive and the decree must be final and unalterable in the court which pronounces it. A judgment can be final and conclusive even if it is subject to appeal or even if an appeal is pending. Where however, the effect of lodging an appeal under the applicable law is to stay execution of the judgment, it is possible that, in the meantime, the judgment should not be actionable in the Republic of Ireland. It remains to be determined whether final judgment given in default of appearance is final and conclusive.

However, the Irish courts may refuse to enforce a judgment of the courts of the State of New York which meets the above requirements for one of the following reasons:

- (i) if the judgment is not for a definite sum of money;
- (ii) if the judgment was obtained by fraud;
- (iii) the enforcement of the judgment in the Republic of Ireland would be contrary to natural or constitutional justice;
- (iv) the judgment is contrary to the Republic of Ireland public policy or involves certain United States laws which will not be enforced in the Republic of Ireland; or
- (v) jurisdiction cannot be obtained by the Irish courts over the judgment debtors in the enforcement proceedings by personal service in the Republic of Ireland or outside the Republic of Ireland under Order 11 of the Superior Courts Rules.

Pursuant to Article 4 of Council Regulation (EC) No 2271/96 of November 22, 1996, as amended by Commission Delegated Regulation (EU) 2018/1100 (the “Blocking Statute”), no judgment of a court or tribunal and no decision of an administrative authority located outside of the European Union giving effect, directly or indirectly, to the laws specified in the annex to the Blocking Statute or to actions based thereon will be recognized or be enforceable in any manner by the courts of the Republic of Ireland.

### **Northern Ireland**

The United States and the UK do not have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters (although the United States and the UK are both parties to the New York Convention on Arbitral Awards). Any judgment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities law, would not be directly enforceable in Northern Ireland. In order to enforce such a monetary judgment in Northern Ireland, under common law rules proceedings must be initiated by way of civil law action on the judgment debt before a Northern Irish Court. Summary judgment may be applied for and in this type of action, a Northern Irish court generally will not (subject to the matters identified below) reinvestigate the merits of the original matter decided by a U.S. court if:

- the relevant U.S. court had territorial, procedural and substantive jurisdiction (under the UK rules of private international law applicable to Northern Ireland) to give the judgment; and
- the judgment is final and conclusive on the merits and is for a definite sum of money (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty or otherwise based on a U.S. law that a Northern Irish Court considers to be a penal, revenue or other public law).

A Northern Irish court may refuse to enforce such a judgment for reasons including if it is established that:

- the enforcement of such judgment would contravene natural justice, public policy or statute in Northern Ireland;
- the enforcement of the judgment is prohibited by statute (including, without limitation, if the amount of the judgment has been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damage sustained);
- the Northern Irish proceedings were not commenced within the relevant limitation period;
- before the date on which the U.S. court gave judgment, the issues in question had been the subject of a final judgment of a Northern Irish Court or of a court of another jurisdiction whose judgment is enforceable in Northern Ireland;
- the judgment has been obtained by fraud or in proceedings in which the principles of natural justice were breached;
- the bringing of proceedings in the relevant U.S. court was contrary to an agreement under which the dispute in question was to be settled otherwise than by proceedings in that court (to whose jurisdiction the judgment debtor did not submit); or



- an order has been made and remains effective under section 9 of the UK Foreign Judgments (Reciprocal Enforcement) Act 1933, applying that section to U.S. courts, including the relevant U.S. court.

If a Northern Irish Court gives judgment for the sum payable under a U.S. judgment, the Northern Irish judgment will be enforceable by methods generally available for this purpose. In addition, it may not be possible to obtain a Northern Irish judgment or to enforce that judgment if the judgment debtor is or becomes subject to any insolvency or similar proceedings, or if the judgment debtor has any set-off or counterclaim against the judgment creditor.

## Belgium

In the absence of any bilateral or multilateral treaty, a final and enforceable judgment of the courts exercising jurisdiction in the United States would be recognized and enforced by the courts of Belgium without review on the merits subject to the conditions specified in Articles 22 to 25 of the Belgian Code of Private International Law (*Wetboek van Internationaal Privaatrecht/Code de Droit International Privé*).

Pursuant to Article 24 of the Belgian Code of Private International Law, the following documents must be produced in court by the claimant:

- an official copy of the judgment (*uitgifte van de beslissing/expédition de la décision*) fulfilling all conditions required for its authentication under the applicable foreign law;
- if obtained by default, an original or legalized copy of the document demonstrating that the originating process has been served on the defendant in accordance with the applicable foreign law; and
- any document demonstrating that, under the applicable foreign law, the judgment is enforceable and has been notified to the defendant.

However, recognition and enforcement can be refused in the circumstances described in Article 25 of the Belgian Code of Private International Law, and notably if:

- the rights of defense have been violated;
- such recognition or enforcement would be incompatible with Belgian public policy;
- the jurisdiction of the foreign judge was based solely on the presence of the defendant or assets without any direct connection with the dispute in the foreign state;
- the decision may still be appealed under the applicable foreign law (however, provisional enforcement could then be granted) or does not meet the requirements of authenticity pursuant to the applicable laws;
- if in relation to matters for which parties cannot freely dispose of their rights, the decision has been sought with the sole purpose of escaping from the application of the laws applicable in accordance with Belgian private international law;
- the claim was filed in the United States after the filing in Belgium of a claim that is still pending between the same parties with respect to the same subject matter;
- the judgment is incompatible with a decision rendered in Belgium or a prior judgment rendered in another jurisdiction that can be recognized in Belgium;
- Belgian jurisdictions have exclusive jurisdiction in respect of the claim; or
- the decision is in conflict with the rules on the recognition and enforcement of court decisions in relation to insolvency proceedings, intellectual property or corporate standing.

As a general principle, procedural rules are governed by the law of the jurisdiction of the court (*lex fori*). In Belgium the procedural rules set out in, among others, the Belgian Judicial Code and the Belgian Code of Private International Law will apply when recognition and enforcement of judgments rendered by United States courts is sought in Belgium.

In the case of an enforcement through legal proceedings in Belgium (including the exequatur of foreign court decisions in Belgium), a registration tax at the rate of 3% of the amount of the judgment is payable by the debtor, if the sum of money that the debtor is ordered to pay by a Belgian court, or by a foreign court judgment that is either (i) automatically enforceable and registered in Belgium or (ii) rendered enforceable by a Belgian court, exceeds €12,500.

## **LEGAL MATTERS**

Certain legal matters in connection with the Offering will be passed upon for us by Kirkland & Ellis International LLP, as to matters of U.S. federal, New York State, English and German law, Stibbe N.V., as to matters of Dutch law, Loyens & Loeff CVBA., as to matters of Belgian law, and Arthur Cox, as to matters of law in Ireland and Northern Ireland. Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP, as to matters of U.S. federal, New York State and English law, Latham & Watkins LLP, as to matters of German law, Loyens & Loeff N.V., as to matters of Dutch law, NautaDutilh BVBA/SPRL, as to matters of Belgian law and A&L Goodbody, as to matters of law in Ireland and Northern Ireland.

## INDEPENDENT AUDITORS

The consolidated financial statements of STADA Arzneimittel AG as of and for the financial year ended December 31, 2016 included in this offering memorandum have been audited by PKF Deutschland GmbH, which is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*), as stated in their report appearing herein. The auditor's address is PKF Deutschland GmbH Wirtschaftsprüfungsgesellschaft, Jungfernstieg 7, 20354 Hamburg, Germany.

The auditor's report of PKF Deutschland GmbH ("PKF") for the consolidated financial statements of STADA Arzneimittel AG as of and for the financial year ended December 31, 2016, refers to group management reports. The group management reports are not included or incorporated by reference in this offering memorandum. They were prepared by and are the sole responsibility of STADA Arzneimittel AG management in accordance with German generally accepted accounting principles. The examinations of and the auditor's reports upon such group management reports are required and were performed in accordance with § 317 of German commercial code (*Handelsgesetzbuch*) and German generally accepted standards on auditing promulgated by the German Institut der Wirtschaftsprüfer (IDW). Those examinations were not made in accordance with generally accepted auditing or attestation standards in the United States. Accordingly, PKF does not express any opinion on this information or on the consolidated financial statements included or incorporated by reference in the offering memorandum, in each case in accordance with U.S. generally accepted auditing standards or U.S. attestation standards. The information contained in such group management reports and the auditor's report upon such group management reports should not be relied upon by U.S. investors.

The consolidated financial statements of STADA Arzneimittel AG as of and for the financial years ended December 31, 2017 and 2018, as well as the consolidated financial statements of German Topco as of and for the financial year ended December 31, 2018, have been audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), which is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*). The auditor's address is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Friedrich Ebert Anlage 35 37, 60327 Frankfurt am Main, Germany.

The independent auditor's reports of PwC for the consolidated financial statements of STADA Arzneimittel AG as of and for the financial years ended December 31, 2017 and 2018, and of German Topco as of and for the financial year ended December 31, 2018, also refer to their respective group management reports. The group management reports are not included or incorporated by reference in this offering memorandum. They were prepared by and are the sole responsibility of the respective STADA's and Topco's management in accordance with German generally accepted accounting principles. The examinations of and the auditor's report upon such group management reports are required and were performed in accordance with §317 of the German Commercial Code (*Handelsgesetzbuch, HGB*) and German generally accepted standards for the audit of management reports promulgated by the German Institut der Wirtschaftsprüfer (IDW). Those examinations were not made in accordance with generally accepted auditing or attestation standards in the United States. Accordingly, PwC does not express any opinion on this information or on the consolidated financial statements included in the offering memorandum, in accordance with U.S. generally accepted auditing standards or U.S. attestation standards. The information contained in such group management reports and the auditor's reports upon such group management reports should not be relied upon by U.S. investors.

## WHERE YOU CAN FIND OTHER INFORMATION

Each purchaser of the Additional Notes from the Initial Purchasers will be furnished with a copy of this offering memorandum and any related amendments or supplements to this offering memorandum. Each person receiving this offering memorandum and any related amendments or supplements to the offering memorandum acknowledges that:

- (1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
- (2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and
- (3) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Additional Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

While any of the Additional Notes remain outstanding and are “restricted securities” within the meaning of the Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to the reporting requirements of Section 13 or 15(d) of the U.S. Exchange Act, nor exempt from the reporting requirements under Rule 12g3-2(b) of the U.S. Exchange Act, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

Pursuant to the Takeda Temporary Indenture and the Senior Secured Notes Indenture governing the Takeda Temporary Notes and the Tap Notes, respectively, and so long as the Additional Notes are outstanding, we will furnish periodic information to holders of the Additional Notes. See “*Description of the Senior Secured Notes—Certain Covenants—Reports.*”

Copies of the Senior Secured Notes Issuer’s organizational documents, the Takeda Temporary Indenture, the Senior Secured Notes Indenture, the Intercreditor Agreement and our most recent consolidated financial statements published by us may be inspected and obtained at the office of the Paying Agent during normal business hours for a period of 14 days following the grant of listing of the Additional Notes. See “*Listing and General Information.*” Copies of such documents will also be available from the Senior Secured Notes Issuer upon written request to the address of the Senior Secured Notes Issuer on and after the grant of listing of the Additional Notes.

## LISTING AND GENERAL INFORMATION

### Admission to Trading and Listing

Application will be made to The International Stock Exchange Authority Limited for the listing of and permission to deal in the Additional Notes on the Official List of the International Stock Exchange (the “Exchange”). There can be no assurance that the Additional Notes will be listed on the Official List of the Exchange, that such permission to deal in the Additional Notes will be granted or that such listing will be maintained.

The Additional Notes are only intended to be offered in the primary market to, and held by, investors who are particularly knowledgeable in investment matters.

### Clearing Information

The Takeda Temporary Notes and the Tap Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream.

The common codes and international securities identification numbers (the “ISIN Number”) for the Takeda Temporary Notes are set forth below:

	<u>Common Code</u>	<u>ISIN Number</u>
144A Takeda Temporary Notes . . . . .		XS
Regulation S Takeda Temporary Notes . . . . .		XS

Following the automatic exchange on the Takeda Temporary Notes Exchange Date in accordance with the terms of the Takeda Temporary Indenture, the Takeda Tap Notes issued pursuant to the Senior Secured Notes Indenture in the same aggregate principal amount as the Takeda Temporary Notes are expected to bear the same common codes and ISIN as the Existing Senior Secured Notes.

We expect that the Walmark Tap Notes will bear the same common codes than the Existing Senior Secured Notes, provided that the Regulation S Walmark Tap Notes will initially be issued bearing a temporary ISIN Number and common code as set forth below:

	<u>Temporary Common Code</u>	<u>Temporary ISIN Number</u>
Regulation S Walmark Tap Notes . . . . .		XS

On and from the consolidation date, the Regulation S Walmark Tap Notes will be consolidated and fully fungible with the Existing Senior Secured Notes sold outside the United States pursuant to Regulation S. The consolidation date will be 40 days after the later of (i) the date of the original issuance of the Regulation S Walmark Tap Notes offered hereby and (ii) the date on which the Regulation S Walmark Tap Notes were first offered to persons other than distributors as defined in Regulation S.

The Existing Senior Secured Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream under the common codes and ISIN Numbers set forth below:

	<u>Common Code</u>	<u>ISIN Number</u>
144A Notes . . . . .	169064342	XS1690643421
Regulation S Notes . . . . .	169064466	XS1690644668

If the stated principal amount of the Additional Notes exceeds their issue price by an amount equal to or greater than a statutorily defined *de minimis* amount, they will not, for U.S. federal income tax purposes, be fungible with, and will not form a single series with, the Existing Senior Secured Notes, and will be issued and trade with different ISINs and common codes than those assigned to the Existing Senior Secured Notes.

### Periodic Reporting Under the Exchange Act

None of the Senior Secured Notes Issuer or STADA is currently subject to the periodic reporting and other information requirements of the Exchange Act.



## General Information on the Senior Secured Notes Issuer

The Senior Secured Notes Issuer is a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Germany. The Senior Secured Notes Issuer is registered with the commercial register of the local court of Frankfurt am Main under the number HRB 109897. The Senior Secured Notes Issuer's principal business address is c/o STADA Arzneimittel Aktiengesellschaft, Stadastraße 2 18, 61118 Bad Vilbel, Germany. The Senior Secured Notes Issuer's managing director can be contacted at the Senior Secured Notes Issuer's business address. As of September 30, 2019, Nidda Healthcare Holding GmbH had a stated share capital (*Stammkapital*) of €50,000 divided into 50,000 shares with a par value of €1.00 each.

## General Information on the Senior Secured Notes Guarantors

The Senior Secured Notes Guarantors as of the New Issue Date, in the case of the Walmark Tap Notes, and as of the Takeda Temporary Notes Exchange Date, in the case of the Takeda Tap Notes, are listed and described below.

STADA Arzneimittel Aktiengesellschaft is a stock corporation (*Aktiengesellschaft*), incorporated under the laws of Germany, registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Frankfurt am Main under HRB 71290 and whose registered address is Stadastraße 2 18, 61118 Bad Vilbel, Germany.

Nidda Healthcare GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*), incorporated under the laws of Germany and registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Frankfurt am Main under HRB 109528 and whose registered address is c/o STADA Arzneimittel Aktiengesellschaft, Stadastraße 2 18, 61118 Bad Vilbel, Germany. As of September 30, 2019, Nidda Healthcare GmbH had a stated share capital (*Stammkapital*) of €25,000 divided into 25,000 shares with a par value of €1 each.

Eurogenerics SA is a public limited liability company (*naamloze vennootschap/société anonyme*), incorporated under the laws of Belgium and registered under registration number BE0419.806.694, RLE Brussels, French language division and whose registered address is Esplanade Heysel B22, 1020 Brussels, Belgium. As of September 30, 2019, had a stated share capital of €54,482,281.75 (*geplaatst maatschappelijk kapitaal/capital social souscrit*) divided into 68,655 shares with no designation of a nominal value.

Internis Pharmaceuticals Limited is a limited liability company, incorporated under the laws of England and Wales with registration number 07162670 and whose registered address is C/O Thornton & Ross Ltd, Manchester Road, Linthwaite, Huddersfield, West Yorkshire HD7 5QH, England. As of September 30, 2019, Internis Pharmaceuticals Limited had a stated share capital of £1,519,002 divided into 881,976 Ordinary A Shares of £0.001 each, 1,075,120 Ordinary B Shares of £1 each and 443,000 Redeemable Preference Shares of £1 each.

Natures Aid Limited is a limited liability company, incorporated under the laws of England and Wales with registration number 02793629 and whose registered address is C/O Thornton & Ross Ltd, Manchester Road, Linthwaite, Nr, Huddersfield, HD7 5QH, England. As of September 30, 2019, Natures Aid Limited had a stated share capital of £99 divided into 99 ordinary shares of £1 each.

Thornton & Ross Limited is a limited liability company, incorporated under the laws of England and Wales with registration number 00185947 and whose registered address is Linthwaite, Nr, Huddersfield, HD7 5QH, England. As of September 30, 2019, Thornton & Ross Limited had a stated share capital of £31,554 divided into 4,100 A ordinary shares of £1 each, 25,307 B ordinary shares of £1 each, 600 C ordinary shares of £1 each and 1,547 D shares of £1 each.

Clonmel Healthcare Limited is a private company limited by shares, incorporated under the laws of Ireland with company number 30591 and whose registered office is at Waterford Road, Clonmel, Co. Tipperary, E91 D768, Ireland. As of September 30, 2019, Clonmel Healthcare Limited had a share capital of €1,717,500 divided into 1,200,000 Ordinary Shares of €0.32 each, 450,000 Redeemable 6.5% Preference Shares of €1.27 each and 600,000 Redeemable 3% Preference Shares of €1.27 each.

Centrafarm B.V. is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*), incorporated under the laws of The Netherlands having its corporate seat (*statutaire zetel*) in Etten Leur, The Netherlands, its registered office at Nieuwe Donk 3, 4879 AC Etten Leur, The Netherlands and is registered with the Dutch trade register under number 20066181. As of September 30,

2019, Centrafarm B.V. has an authorized share capital of €90,756 divided 20,000 shares with a par value of €4.53 each, and an issued share capital of €18.151.

Crosspharma Limited is a private company limited by shares, incorporated under the laws of Northern Ireland with company number NI020748 and whose registered office is at Forsyth House, Cromac Square, Belfast, BT2 8LA, Northern Ireland. As of September 30, 2019, Crosspharma Limited had a share capital of £1,000 divided into 1,000 shares of £1 each.

### **Post-Issue Reporting**

Except as otherwise provided in this offering memorandum or as required by applicable law or regulation, we do not intend to provide post-issue information regarding the Additional Notes. The organizational documents of the Senior Secured Notes Issuer, along with the Takeda Temporary Notes Indenture, the Senior Secured Notes Indenture, the Intercreditor Agreement and the most recent consolidated financial statements published by us may be inspected and obtained at the office of the Paying Agent during normal business hours for a period of 14 days following grant of listing of the Additional Notes. Copies of such documents will also be available from the Senior Secured Notes Issuer upon request on and after the grant of listing of the Additional Notes.

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**AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

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**CONSOLIDATED INTERIM FINANCIAL STATEMENTS ON THE FIRST NINE MONTHS OF 2019  
(ABRIDGED)**

**Consolidated Income Statement**

<b>Consolidated Income Statement in k €</b>	<b>9M/2019</b>	<b>9M/2018</b>
Sales . . . . .	1,902,979	1,708,260
Cost of sales . . . . .	1,025,866	1,053,030
<b>Gross profit . . . . .</b>	<b>877,113</b>	<b>655,230</b>
Selling expenses . . . . .	426,190	383,139
General and administrative expenses . . . . .	164,816	144,052
Research and development expenses . . . . .	51,481	53,681
Other income . . . . .	23,553	32,050
Other expenses . . . . .	107,803	70,621
<b>Operating profit . . . . .</b>	<b>150,376</b>	<b>35,787</b>
Result from investments measured at equity . . . . .	– 1	3,654
Investment income . . . . .	—	—
Financial income . . . . .	7,306	16,604
Financial expenses . . . . .	197,059	160,048
<b>Financial result . . . . .</b>	<b>– 189,754</b>	<b>– 139,790</b>
<b>Earnings before taxes . . . . .</b>	<b>– 39,378</b>	<b>– 104,003</b>
Income taxes . . . . .	– 9,020	20,183
<b>Earnings after taxes . . . . .</b>	<b>– 30,358</b>	<b>– 124,186</b>
thereof		
• distributable to shareholders of Nidda German Topco GmbH (net result) .	– 38,647	– 113,975
• distributable to non-controlling shareholders . . . . .	8,289	– 10,211



## Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income in k €	9M/2019	9M/2018
<b>Earnings after taxes</b> . . . . .	<b><u>– 30,358</u></b>	<b><u>– 124,186</u></b>
<b>Items to be recycled to the income statement in future:</b>		
<b>Currency translation gains and losses</b> . . . . .	<b><u>71,850</u></b>	<b><u>– 38,970</u></b>
thereof		
• income taxes . . . . .	– 348	279
<b>Gains and losses on financial assets (FVOCI)</b> . . . . .	<b><u>– 25</u></b>	<b><u>8</u></b>
thereof		
• income taxes . . . . .	1	0
<b>Items not to be recycled to the income statement in future:</b>		
<b>Revaluation of net debt from defined benefit plans</b> . . . . .	<b><u>– 7,650</u></b>	<b><u>—</u></b>
thereof		
• income taxes . . . . .	2,108	—
<b>Other comprehensive income</b> . . . . .	<b><u>64,175</u></b>	<b><u>– 38,962</u></b>
thereof		
• attributable to disposal groups held for sale in accordance with IFRS 5 . .	<b><u>2,581</u></b>	<b><u>—</u></b>
<b>Consolidated comprehensive income</b> . . . . .	<b><u>33,817</u></b>	<b><u>– 163,148</u></b>
thereof		
• distributable to shareholders of Nidda German TopCo GmbH . . . . .	24,315	– 151,673
• distributable to non-controlling shareholders . . . . .	9,502	– 11,475

## Consolidated Balance Sheet

### Consolidated Balance Sheet in k €

Assets	Sept. 30, 2019	Dec. 31, 2018
<b>Non-current assets</b>	<b>5,207,747</b>	<b>5,398,693</b>
Intangible assets	4,640,621	4,890,305
Property, plant and equipment	517,988	444,754
Financial assets	6,117	2,281
Investments measured at equity	1,904	24,568
Other financial assets	823	823
Other assets	1,217	1,164
Deferred tax assets	39,077	34,798
<b>Current assets</b>	<b>1,687,378</b>	<b>1,475,018</b>
Inventories	600,634	515,251
Trade accounts receivable	541,324	516,011
Return assets	294	620
Income tax receivables	27,707	18,095
Other financial assets	13,987	12,755
Other assets	52,580	51,487
Cash and cash equivalents	206,260	360,749
Non-current assets and disposal groups held for sale	244,592	50
<b>Total assets</b>	<b>6,895,125</b>	<b>6,873,711</b>
<b>Equity and liabilities</b>	<b>Sept. 30, 2019</b>	<b>Dec. 31, 2018</b>
<b>Equity</b>	<b>– 352,970</b>	<b>– 369,764</b>
Share capital	25	25
Capital reserve	152,677	152,677
Retained earnings including net result	– 638,423	– 592,137
Other reserves	19,844	– 50,756
<b>Equity attributable to shareholders of the parent</b>	<b>– 465,877</b>	<b>– 490,191</b>
Shares relating to non-controlling shareholders	112,907	120,427
<b>Non-current borrowed capital</b>	<b>6,300,473</b>	<b>5,987,381</b>
Other non-current provisions	42,821	33,490
Financial liabilities	5,301,106	4,972,080
Other financial liabilities	39,968	7,841
Other liabilities	2,353	2,460
Deferred tax liabilities	914,225	971,510
<b>Current borrowed capital</b>	<b>947,622</b>	<b>1,256,094</b>
Other provisions	17,839	22,543
Financial liabilities	63,883	467,908
Trade accounts payable	347,557	320,913
Contract liabilities	1,009	1,491
Income tax liabilities	92,691	88,373
Other financial liabilities	240,637	224,308
Other liabilities	141,644	130,558
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	42,362	—
<b>Total equity and liabilities</b>	<b>6,895,125</b>	<b>6,873,711</b>

## Consolidated Cash Flow Statement

Consolidated Cash Flow Statement in k €	9M/2019	9M/2018
Net income . . . . .	– 30,358	– 124,186
Depreciation and amortization net of write-ups of non-current assets . . . . .	296,635	250,414
Income taxes . . . . .	– 9,020	20,183
Income tax paid . . . . .	– 44,501	– 36,323
Interest income and expenses . . . . .	189,753	143,444
Interest and dividends received . . . . .	789	3,935
Interest paid . . . . .	– 145,410	– 72,434
Result from investments measured at equity . . . . .	1	– 3,654
Result from the disposal of non-current assets . . . . .	– 655	209
Additions to/reversals of other non-current provisions . . . . .	2,543	2,443
Currency translation income and expenses . . . . .	2,405	857
Other non-cash expenses and gains . . . . .	201,588	273,722
<b>Gross cash flow . . . . .</b>	<b>463,770</b>	<b>458,610</b>
Changes in inventories . . . . .	– 96,257	– 18,219
Changes in trade accounts receivable . . . . .	– 17,720	12,198
Changes in trade accounts payable . . . . .	20,188	– 69,957
Changes in other net assets, unless attributable to investing or financing activities . . . . .	– 146,047	– 186,558
<b>Cash flow from operating activities . . . . .</b>	<b>223,934</b>	<b>196,074</b>
Payments for investments in		
• intangible assets . . . . .	– 135,786	– 246,121
• property, plant and equipment . . . . .	– 59,729	– 31,854
• financial assets . . . . .	– 4,504	– 85
• business combinations in accordance with IFRS 3 . . . . .	—	18,503
Proceeds from the disposal of		
• intangible assets . . . . .	712	990
• property, plant and equipment . . . . .	5,033	1,148
• financial assets . . . . .	—	—
• shares in consolidated companies . . . . .	5,708	4,593
<b>Cash flow from investing activities . . . . .</b>	<b>– 188,566</b>	<b>– 252,826</b>
Borrowing of funds . . . . .	8,104	827,834
Settlement of financial liabilities . . . . .	– 156,657	– 784,230
Settlement of lease liabilities . . . . .	– 20,446	– 1,224
Dividend distribution . . . . .	– 17,022	– 4,467
Capital increase . . . . .	—	—
Changes in non-controlling interests . . . . .	– 818	– 2,234
<b>Cash flow from financing activities . . . . .</b>	<b>– 186,839</b>	<b>35,679</b>
<b>Changes in cash and cash equivalents . . . . .</b>	<b>– 151,471</b>	<b>– 21,073</b>
Changes in cash and cash equivalents due to the scope of consolidation . . . . .	– 4,314	153
Changes in cash and cash equivalents due to exchange rates . . . . .	1,296	– 264
<b>Net change in cash and cash equivalents . . . . .</b>	<b>– 154,489</b>	<b>– 21,184</b>
<b>Balance at beginning of the period . . . . .</b>	<b>360,749</b>	<b>474,777</b>
<b>Balance at end of the period . . . . .</b>	<b>206,260</b>	<b>453,593</b>

## Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity in k € 2019	Share capital	Capital reserve	Retained earnings including net result	Reserve for currency translation	Reserve FVOCI	Equity attributable to shareholders of the parent company	Shares relating to non-controlling shareholders	Group equity
<b>Balance as of Sept. 30, 2019</b> . . . . .	<u>25</u>	<u>152,677</u>	<u>- 638,423</u>	<u>19,860</u>	<u>- 16</u>	<u>- 465,877</u>	<u>112,907</u>	<u>- 352,970</u>
Dividend distribution . . . . .						—	- 17,022	- 17,022
Capital increase . . . . .						—	—	—
Changes in the scope of consolidation . . . . .						—	—	—
Other comprehensive income . . . . .			- 7,638	70,625	- 25	62,962	1,213	64,175
Net income . . . . .			- 38,647			- 38,647	8,289	- 30,358
<b>Balance as of Jan. 1, 2019</b> . . . . .	<u>25</u>	<u>152,677</u>	<u>- 592,137</u>	<u>- 50,765</u>	<u>9</u>	<u>- 490,191</u>	<u>120,427</u>	<u>- 369,764</u>
<b>Balance as of Sept. 30, 2018</b> . . . . .	<u>25</u>	<u>152,677</u>	<u>- 396,553</u>	<u>- 24,277</u>	<u>- 10</u>	<u>- 268,138</u>	<u>93,787</u>	<u>- 174,351</u>
Dividend distribution . . . . .			- 2,371			- 2,371	- 3,530	- 5,901
Capital increase . . . . .						—	1,435	1,435
Changes due to the financial liability from the DPLTA . . . . .		- 517,389				- 517,389	- 1,069,127	- 1,586,516
Changes in the scope of consolidation . . . . .						—	48.169	48.169
Other comprehensive income . . . . .			- 33	- 37,680	15	- 37,698	- 1,264	- 38,962
Net income . . . . .			- 113,975			- 113,975	- 10,211	- 124,186
<b>Balance as of Jan. 1, 2018</b> . . . . .	<u>25</u>	<u>670,066</u>	<u>- 280,174</u>	<u>13,403</u>	<u>- 25</u>	<u>403,295</u>	<u>1,128,315</u>	<u>1,531,610</u>
Adjustments per IFRS 9/IFRS 15 . . . . .			- 1,123		- 25	- 1,148	- 717	- 1,865
<b>Balance as of Jan. 1, 2018</b> . . . . .	<u>25</u>	<u>670,066</u>	<u>- 279,051</u>	<u>13,403</u>	<u>—</u>	<u>404,443</u>	<u>1,129,032</u>	<u>1,533,475</u>

## Notes

### 1. General

#### 1.1. Accounting policies

The interim report of Nidda German Topco GmbH comprises interim consolidated financial statements. The Interim Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) for the interim report as they are to be applied in the European Union (EU).

The Interim Consolidated Financial Statements as of September 30, 2019 were prepared in observance of the regulations of International Accounting Standard (IAS) 34. In accordance with IAS 34, an abridged scope of the report compared to the Consolidated Financial Statements as of December 31, 2018 was selected.

All IFRS adopted by the International Accounting Standards Board (IASB) and endorsed by the EU, which are required to be applied from January 1, 2019 onwards, were observed.

With the exception of the changes in accounting policies shown under point 1.2., the same accounting policies and calculation methods are used in these Interim Consolidated Financial Statements as in the Consolidated Financial Statements of the 2018 financial year. In this respect, with regard to the principles and methods applied in the Group financial reporting, reference is made in general to the Notes to the Consolidated Financial Statements in the Annual Report 2018.

#### 1.2. Changes in accounting policies

In the first nine months of 2019, Nidda observed and, where relevant, applied, the announcements or modified announcements published by the IASB and endorsed by the EU with an initial application date of January 1, 2019. To the extent that these changes had any significant effects on the presentation of Nidda's net assets, financial position and results of operations or cash flow, they are discussed in detail below.

In January 2016, the IASB published a new standard, IFRS 16 "Leases", which generally prescribes that lessees recognize the contractual rights (assets) and responsibilities (liabilities) associated with leases in the balance sheet. Classification into finance leases or operating leases is consequently no longer required of the lessee. IFRS 16 must be applied to financial years starting on or after January 1, 2019. Early application is permitted. Nidda applied the new standard for the first time from January 1, 2019 modified retroactively, i.e. an adjustment of the prior-year figures has been waived. Rights of use are therefore assimilated to leasing liabilities at the time of conversion.

The amortized cost of the right of use is calculated as the present value of future lease payments, initial direct costs as well as the estimated costs that would arise in the course of the disassembly and removal or restoration of the leasing object. Leasing incentives received are deducted. First-time application of the leasing liabilities for leases which has formerly been treated as operating leases under IAS 17 is carried out at the present value of the lease liability to be paid. In case a lease contract specific interest rate is available or known, this rate is used to calculate the present value of the right of use asset and corresponding liability. Otherwise, the incremental borrowing rate is applied, which was calculated by taking currency and country specific aspects as well as credit risks into consideration and ranged from 1.6% to 16.2% for the first time application of IFRS 16. In subsequent measurement, the leasing liabilities are compounded and reduced by the leasing payments made. Finance lease liabilities already accounted for in the balance sheet under the previously applicable IAS 17 were not re-evaluated at transition date and therefore adopted with their respective book value (€5.3 million) at the transition date.

Use is made of the option granted by IFRS 16 to waive application of a right of use and the leasing liability for (short-term) leases with a term of up to twelve months or for leases of low-value assets as well to consider non-leasing components generally as leasing payments. In the transition to IFRS 16, current findings (hindsight) in the determination of the terms of leases with extension and termination options have been incorporated. For the measurement of the right of use, the practical expedient to exclude the initial direct costs at the time of initial application was applied, while the practical expedient to not re-assess whether a contract is, or contains, a lease at the date of initial application ("grandfathering") has not been exercised.



## Notes (Continued)

### 1. General (Continued)

As a result of the accounting of assets and liabilities in the lessee's balance sheet, as required by IFRS 16, an increase in assets in the balance sheet in the amount of €59.0 million and a corresponding increase in current and non-current leasing liabilities occurred which are reported in the balance sheet item other financial liabilities. The conversion effect mainly concerns leased properties and company vehicles. The difference between the discounted other financial obligations from leases as of December 31, 2018 and the leasing liabilities reported in the balance sheet at the time of the initial application of IFRS 16 as of January 1, 2019, results primarily through the evaluation to be made in accordance with IFRS 16 on the exercise of termination and extension options. Due to disproportionate efforts in connection with the assessment of the exact value of the discounted financial obligations from leases as of December 31, 2018, this amount is not disclosed in this interim report. The effects of first-time application of the new IFRS 16 on the consolidated balance sheet are described in condensed form as follows:

<u>Consolidated balance sheet in k €</u>	<u>Dec. 31, 2018</u>	<u>Adjustments per IFRS 16</u>	<u>Jan. 1, 2019 (adjusted)</u>
<b>Assets</b>			
<b>Non-current assets</b> . . . . .	<b>5,398,693</b>	<b>58,979</b>	<b>5,457,672</b>
Intangible assets . . . . .	4,890,305	7,062	4,897,367
Property, plant and equipment . . . . .	444,754	51,917	496,671
Financial assets . . . . .	2,281		2,281
Investments measured at equity . . . . .	24,568		24,568
Other financial assets . . . . .	823		823
Other assets . . . . .	1,164		1,164
Deferred tax assets . . . . .	34,798		34,798
<b>Current assets</b> . . . . .	<b>1,475,018</b>	<b>—</b>	<b>1,475,018</b>
Inventories . . . . .	515,251		515,251
Trade accounts receivable . . . . .	516,011		516,011
Return assets . . . . .	620		620
Income tax receivables . . . . .	18,095		18,095
Other financial assets . . . . .	12,755		12,755
Other assets . . . . .	51,487		51,487
Cash and cash equivalents . . . . .	360,749		360,749
Non-current assets and disposal groups held for sale . . . . .	50		50
<b>Total assets</b> . . . . .	<b>6,873,711</b>	<b>58,979</b>	<b>6,932,690</b>

## Notes (Continued)

### 1. General (Continued)

<u>Equity and liabilities</u>	<u>Dec. 31, 2018</u>	<u>Adjustments per IFRS 16</u>	<u>Jan. 1, 2019 (adjusted)</u>
<b>Equity</b> . . . . .	<b>– 369,764</b>	<b>—</b>	<b>– 369,764</b>
Share capital . . . . .	25		25
Capital reserve . . . . .	152,677		152,677
Retained earnings including net income . . . . .	– 592,137		– 592,137
Other reserves . . . . .	– 50,756		– 50,756
<b>Equity attributable to shareholders of the parent company</b> . . . . .	<b>– 490,191</b>	<b>—</b>	<b>– 490,191</b>
Shares held by non-controlling shareholders . . . . .	120,427		120,427
<b>Non-current borrowings</b> . . . . .	<b>5,987,381</b>	<b>38,912</b>	<b>6,026,293</b>
Pension provisions . . . . .	33,490		33,490
Financial liabilities . . . . .	4,972,080		4,972,080
Other financial liabilities . . . . .	7,841	38,912	46,753
Other liabilities . . . . .	2,460		2,460
Deferred tax liabilities . . . . .	971,510		971,510
<b>Current borrowings</b> . . . . .	<b>1,256,094</b>	<b>20,067</b>	<b>1,276,161</b>
Other provisions . . . . .	22,543		22,543
Financial liabilities . . . . .	467,908		467,908
Trade accounts payable . . . . .	320,913		320,913
Contract liabilities . . . . .	1,491		1,491
Income tax liabilities . . . . .	88,373		88,373
Other financial liabilities . . . . .	224,308	20,067	244,375
Other liabilities . . . . .	130,558		130,558
Non-current liabilities and disposal groups held for sale . . . . .	—		—
<b>Total equity and liabilities</b> . . . . .	<b>6,873,711</b>	<b>58,979</b>	<b>6,932,690</b>

Instead of leasing expenses for operating leases, as a result of the changes from IFRS 16, future depreciation and amortization and interest expenses will be recorded in the income statement—with a corresponding impact on EBITDA. Amortization for leases in accordance with IFRS 16 amounted to €17.1 million in the first nine months of 2019. In addition, STADA reported interest expenses for leases in the amount of €2.5 million in the reporting period. In financial year 2018, in accordance with the requirements of IAS 17 “Leases” that were to be applied in the previous year, these expenses were fully recognized in operating profit as a leasing expense and as a reduction of EBITDA for operating leases. In addition, a cash-out of €20.4 million relating to leases in accordance with IFRS 16 was recorded in the first nine months of 2019 within cash flow from financing activities.

#### The IASB has published the following IFRS standards that were not yet applied:

From the future application of additional standards and interpretations that have not yet been applied, from today’s perspective no effects, or no significant effects, are expected on the consolidated financial statements.

### 1.3. Scope of consolidation

The interim consolidated financial statements of the Nidda Group are prepared for Nidda German Topco GmbH as the parent company. On the reporting date, September 30, 2019, the scope of consolidation included a total of 82 subsidiaries (December 31, 2018: 83) and 4 associates (December 31, 2018: 4) in the Interim Consolidated Financial Statements.

### 1.4. Acquisition and disposals

On May 31, 2019 STADA announced that the company and Xbrane Biopharma AB have expanded their strategic biosimilar development partnership. This allows both companies to evaluate potential

## Notes (Continued)

### 1. General (Continued)

development and commercialization collaborations around Xbrane's Xcimzane and Xdivane preclinical biosimilars and additional biosimilars that fit both companies' portfolios.

On June 7, 2019 STADA released that the company through its British subsidiary Thornton & Ross signed a contract to acquire five skin care brands as well as a pediatric cough remedy in Europe and selected markets in APAC and Latin America from GlaxoSmithKline. The contract took effect on July 31, 2019 and mainly led to a recognition of the mentioned intangible assets in the balance sheet. The acquisition allows STADA to expand its Consumer Health business in the aforementioned markets.

On August 20, 2019, STADA announced that the company is gradually launching the biosimilar Movymia® as a cost-effective alternative to Forsteo® in 24 countries starting at the end of August. Forsteo® had a sales volume of almost €250 million over the last 12 months in Europe. The launch of Movymia® is another important step in the expansion of STADA's biosimilar portfolio in Europe.

No business combinations as defined in IFRS 3 took place in the first nine months of 2019.

### STADA Acquisition

In financial year 2017, due to the STADA acquisition, a significant business combination according to IFRS 3 occurred. The settlement of the STADA acquisition was subject to the condition, among others, that a minimum acceptance threshold of 63% be reached by the end of the initial acceptance period on August 16, 2017. Upon expiration of the initial acceptance period, a total of 63.77% of the issued STADA shares had been tendered into the offer, so that the minimum acceptance threshold was reached.

The STADA Group was included in the Consolidated Financial Statements of Nidda German Topco GmbH for the first time as of August 31, 2017. The purchase price of the STADA acquisition was allocated on a preliminary basis in the audited financial statements of Nidda German Topco GmbH as of and for the year ended December 31, 2017. The consolidated financial statements of Nidda German Topco GmbH as of and for the nine months ended September 30, 2019 as well as the comparative information reflect the final purchase price allocation.

### 2. Information on the Consolidated Income Statement

#### 2.1. Sales

Reported Group sales in the first nine months of the current financial year increased by 11% to €1,903.0 million (1-9/2018: €1,708.3 million). This development was particularly attributable to the positive development in Germany, Europe and the United Kingdom, while also the introduction of Bortezomib STADA® in the second quarter of 2019 as well as the acquired product Nizoral contributed to this development. On the other hand, it was partially offset by development in the CIS region related to high stock levels and intensified competition. After deducting effects on sales resulting from portfolio and from currency effects, adjusted Group sales grew by 8% to €1,903.0 million (1-9/2018: €1,767.8 million).

#### 2.2. Cost of sales and gross profit

Cost of sales in the reporting period was €1,025.9 million (1-9/2018: €1,053.0 million), and led to a gross profit of €877.1 million (1-9/2018: €655.2 million) and a gross margin of 46.1% (1-9/2018: 38.4%). The previous year was burdened by purchase price allocation effects which did not recur in the current reporting period, leading to higher cost of sales. Management adjusted gross margin improved to 53.9% (1-9/2018: 51.4%).

#### 2.3. Selling expenses

Selling expenses in the first nine months of 2019 amounted to €426.2 million (1-9/2018: €383.1 million). This increase was primarily due to focused strengthening of sales force in key markets and strong promotional and marketing campaigns.

## Notes (Continued)

### 2. Information on the Consolidated Income Statement (Continued)

#### 2.4. General and administrative expenses

General and administrative expenses totaled €164.8 million in the reporting period (1-9/2018: €144.1 million). This increase was primarily due to consultancy expenses in relation to the transformation process.

#### 2.5. Research and development expenses

Research and development expenses totaled €51.5 million in the first nine months 2019 (1-9/2018: €53.7 million).

#### 2.6. Other income

Other income in the first nine months of 2019 reached €23.6 million (1-9/2018: €32.1 million). In the previous reporting period, an insurance compensation for the insolvency of a customer was received, leading to the lower other income compared to the previous reporting period.

#### 2.7. Other expenses

Other expenses amounted to €107.8 million in the reporting period (1-9/2018: €70.6 million). The increase was due to higher impairments on intangible assets (€ 46.3 million). Severance expenses of €14.3 million that were management adjusted and which were primarily relating to business process outsourcing activities, further burdened the current reporting period. These outsourcing activities are mainly affecting finance (general and administration), customer service (sales & marketing) and procurement departments.

#### 2.8. Financial result

The financial result, which is composed primarily of financial income and financial expenses, amounted to – €189.8 million (1-9/2018: – €139.8 million). The increase in financial expenses was primarily relating to financing costs that additionally occurred as a result of the delisting offer and its financing in Q4 2018.

#### 2.9. Income taxes

Income taxes amounted to an income €9.0 million in the reporting period (1-9/2018: €20.2 million income taxes expenses). Income tax income amounted to €9.0 million based on the weighted average effective annual income tax rate expected for the full financial year of 22.9%, compared to – 19.4% for the nine months ended September 30, 2018. The tax rate in 2019 was higher in 2019 due to prior period taxes.

### 3. Information on the Consolidated Balance Sheet

#### 3.1. Intangible assets

Intangible assets decreased by €249.7 million to €4,640.6 million as of September 30, 2019 (December 31, 2018: € 4,890.3 million), as a result of the reclassification of assets being held for sale according to IFRS 5 as well as impairments on intangible assets recognized of € 46.3 million. The impairments are primarily relating to a marketing authorization for a branded product (€24.8 million) due to negative business development outlook and an in-process R&D project for a generic product (€17.0 million), which was impaired due to the termination of the development activities.

#### 3.2. Property, plant and equipment

Property, plant and equipment amounted to €518.0 million as of September 30, 2019 (December 31, 2018: €444.8 million). The development was driven by the first-time application of IFRS 16 and the according accounting of right-of-use assets.

## Notes (Continued)

### 3. Information on the Consolidated Balance Sheet (Continued)

#### 3.3. Financial assets

Financial assets were at €6.1 million as of September 30, 2019 (December 31, 2018: €2.3 million). This change relates primarily to shares in the acquired Swedish company XBrane Biopharma AB, which were measured at fair value.

#### 3.4. Investments measured at equity

Investments measured at equity amounted to €1.9 million on the balance sheet date (December 31, 2018: €24.6 million). This decrease is based primarily on the reclassification from investments measured at equity of shares in STADA Vietnam J.V. Co. Ltd. to non-current assets and disposal groups held for sale.

#### 3.5. Inventories

Inventories totaled €600.6 million as of the balance-sheet date (December 31, 2018: €515.3 million). The increase was related to the build up of safety stock and for product introductions, but also driven by the appreciation of the Russian ruble.

#### 3.6. Trade accounts receivable

Trade accounts receivable increased to €541.3 million as of September 30, 2019 (December 31, 2018: €516.0 million).

#### 3.7. Income tax receivables

Income tax receivables increased to €27.7 million as of the balance sheet date (December 31, 2018: €18.1 million).

#### 3.8. Non-current assets and disposal groups held for sale

As of September 30, 2019, assets in the amount of €244.6 million (December 31, 2018: €0.1 million) and liabilities in the amount of €42.4 million (December 31, 2018: nil) were held for sale, mainly in the context of a disposal group, and disclosed in a separate line item in the balance sheet. The disposal group relates to two group companies, a British subsidiary as well as the associated company STADA Vietnam J.V. Co. Ltd., Ho-Chi-Minh City, Vietnam.

As a result of the contract concluded in the fourth quarter of 2017 for the sale of shares held by STADA in this company, since December 2017, STADA Vietnam J.V. was no longer accounted for as a subsidiary in accordance with IFRS 10, but as an associate pursuant to IAS 28. As the sale is expected to take place within one year as of September 30, 2019, the previously at-equity investment has eventually been reclassified as a non-current asset held for sale of €18.7 million. The reclassification did not lead to a recognition of an impairment expense.

in k €	Sept. 30, 2019	Dec. 31, 2018
Investments measured at equity . . . . .	18,655	—
<b>Total assets held for sale . . . . .</b>	<b>18,655</b>	<b>—</b>

In the third quarter of 2019, a sale process began to explore our options for a potential disposition of one of our British subsidiaries. In accordance with the applicable requirements under IFRS 5, the relevant assets and liabilities were recognized as held for sale because a completion of the proposed disposition is expected within twelve months and regarded as highly probable as of the balance sheet date. For the nine months ended September 30, 2019, the operations (including intercompany business) held for sale generated an EBITDA of €29 million (twelve months ended September 30, 2019: €39 million). The company is soliciting offers from interested parties and has not yet signed a definitive sale agreement or a letter of intent with respect to the potential disposition, and such disposition may not occur. The disposition will be abandoned if the financial and other terms of the potential offers are not satisfactory. The use of the proceeds from any such sale, if any, have not been conclusively determined.



## Notes (Continued)

### 3. Information on the Consolidated Balance Sheet (Continued)

The assets and liabilities held for sale in connection with the intended sale of the British subsidiary comprise the following main groups:

in k €	Sept. 30, 2019	Dec. 31, 2018
Intangible assets . . . . .	198,137	—
Thereof: Goodwill . . . . .	28,251	—
Tangible assets . . . . .	4,511	—
Other non-current assets . . . . .	207	—
Inventories . . . . .	2,371	—
Trade receivables . . . . .	15,521	—
Cash . . . . .	4,314	—
Other current assets . . . . .	826	—
<b>Total assets held for sale . . . . .</b>	<b>225,887</b>	<b>—</b>

in k €	Sept. 30, 2019	Dec. 31, 2018
Deferred taxes . . . . .	25,162	—
Other non-current liabilities . . . . .	2,094	—
Trade payables . . . . .	6,747	—
Other current liabilities . . . . .	8,359	—
<b>Total liabilities associated with assets held for sale . . . . .</b>	<b>42,362</b>	<b>—</b>

A goodwill with an amount of €28.3 million is part of the reclassification of intangibles as being held for sale. This leads to a remaining goodwill within intangible assets of €500.8 million recognized as of 30.09.2019 (31.12.2018: €529.1 million).

As the carrying amount of the disposal group was below fair value less disposal costs as of September 30, 2019, no impairment expense was recorded.

Finally, further non-current assets with an amount of 0.1 million (31.12.2018: 0.1 million) were also included in the balance sheet as assets held for sale.

### 3.9. Capital reserve, retained earnings and other reserves

The initial recognition of a financial liability to outside STADA shareholders arising from the DPLTA resulted in a decrease in capital reserves by €517.4 million and a decrease in shares relating to non-controlling shareholders of €1,069.1 million in the financial year 2018.

Retained earnings including net income comprise the net income of the first nine months of 2019 and the results achieved in previous periods, insofar as they have not been distributed, including the amounts placed in retained earnings. Revaluations of net debt from defined pension benefit plans, recognized through other comprehensive income after the consideration of deferred tax liabilities, were also shown in this position.

Other reserves include the results directly considered in equity. This concerns, for example, the foreign exchange gain and loss resulting from currency translation—with no effect on income—of the financial statements of the companies included in the Group, which are shown in the currency translation reserve in the statement of changes in equity. The increase in other reserves as of September 30, 2019 was attributable in particular to the appreciation of the Russian ruble since December 31, 2018 and to the resulting income recognized in equity from currency conversion for companies that report in this currency.

### 3.10. Financial liabilities

The Group's current and non-current financial liabilities amounted to €63.9 million and €5,301.1 million as of September 30, 2019 (December 31, 2018: €467.9 million and €4,972.1 million, respectively). The reduction of current financial liabilities and the increase in non-current financial liabilities is based on the reclassification of the STADA Bond 2015/2022 from current to non-current. Following expiration of the

## Notes (Continued)

### 3. Information on the Consolidated Balance Sheet (Continued)

tender offer of January 8, 2019 on September 21, 2019, there is no longer a termination right or a potential termination right is forfeited. For this reason, the bond was once again reclassified as non-current pursuant to its original term. The reduction in current financial liabilities also results from the repayment of further promissory note loans.

In order to finance the takeover of STADA Arzneimittel AG, the Nidda Group in 2017 initially made use of equity commitments provided by the sponsors, a syndicated loan agreement and two bridge loans. The sponsors' equity commitments were made to Nidda German Topco GmbH through intermediate holding companies, partly by means of an initial contribution and co-payment into the capital reserve and partly by means of a shareholder loan and similar instruments. The syndicated loan agreement was concluded on August 17, 2017 and granted a collateralized loan, callable in several tranches and currencies, in a total nominal amount of initially up to €1,700.0 million as well as a collateralized revolving credit facility of up to €400.0 million ("RCF"). On September 29, 2017, the bridge loans were refinanced through long-term bonds, as planned. For this purpose, Nidda Healthcare Holding GmbH issued a bond with a volume of €735.0 million and an interest rate of 3.5% p.a. ("SSN Bond"). At the same time, Nidda BondCo GmbH issued a bond with a volume of €340.0 million and an interest rate of 5% p.a. ("First SUN Bond").

In order to finance the STADA Arzneimittel AG shares tendered as part of the de-listing tender offer made in October 2018, the Nidda Group utilized existing liquid funds, existing facilities under the syndicated loan agreement, an additional facility under the syndicated loan agreement with a total nominal amount of €705 million and a bridge loan with a nominal amount of €250.0 million. As planned, the Bridge was refinanced by Nidda BondCo GmbH on December 4, 2018 and December 13, 2018 by emission of a long-term partly-collateralized bond ("Second SUN Bond") with a volume of €250.0 million and an interest rate of 7.25% p.a.

As of the reporting date on September 30, 2019, non-current financial liabilities under the Term Loan amounted to a nominal value of €2,405.3 million (December 31, 2018: €2,402.4 million), while borrowings under the RCF as of September 30, 2019 did not exist. In addition, because the equity commitments of the sponsors to Nidda German Topco GmbH had been contributed partly by way of a capital contribution and additional payment into the capital reserve and partly by way of a shareholder loan and similar instruments, there were also non-current financial liabilities of Nidda German Topco GmbH owed to its shareholder, Nidda Midco S.à r.l, Luxembourg, in an amount of €1,066.8 million<sup>1</sup> (December 31, 2018: €1,016.0 million).

In the DPLTA, Nidda Healthcare GmbH offers to acquire the shares of the outside STADA Shareholders in return for cash compensation pursuant to section 305 AktG in the amount of € 74.40 per share. Pending each shareholder's acceptance of such offer, the DPLTA provides for an annually recurring compensation payment to each such outside shareholder pursuant to section 304 AktG in the amount of € 3.82 gross (€ 3.53 net at current tax rates) per share. As acceptance of the offer is outside the control of Nidda Healthcare GmbH, the corresponding obligation has to be accounted for as a financial liability. The obligation to outside STADA shareholders arising from the DPLTA between Nidda Healthcare GmbH and STADA Arzneimittel AG amounted to €290.6 million as of September 30, 2019 (December 31, 2018: €294.3) and was mainly recognized within the non-current financial liabilities.

In addition to the acquisition financing instruments existing at the level of the Nidda Holding companies, there was one corporate bond at the level of STADA Arzneimittel AG (STADA Bond 2015/2022) with a nominal value of €267.4 million (December 31, 2018: €274.1 million) and an interest rate of 1.75% p.a. remaining as of September 30, 2019. In addition, as of September 30, 2019, promissory note loans with a nominal value of €52.5 million in total were held at the level of STADA Arzneimittel AG (December 31, 2018: €178.0 million).

#### 3.11. Trade accounts payable

Trade accounts payable increased to 347.6 million as of the balance sheet date (December 31, 2018: €320.9 million).

<sup>1</sup> See Note 9. to the Consolidated Financial Statements for further financial information in the form of reconciliations.

## Notes (Continued)

### 3. Information on the Consolidated Balance Sheet (Continued)

#### 3.12. Deferred tax liabilities

Deferred tax liabilities decreased to €914.2 million as of September 30, 2019 (December 31, 2018: €971.5 million), primarily due to the reclassification of liabilities associated with assets held for sale according to IFRS 5 and the release of deferred taxes in connection with the reduction of timing differences resulting from the purchase price allocation.

#### 3.13. Income tax liabilities

Income tax liabilities increased to €92.7 million as of the balance sheet date (December 31, 2018: €88.4 million).

#### 3.14. Other financial liabilities

Other financial liabilities increased to €280.6 million as of September 30, 2019 (December 31, 2018: €232.1 million). The increase was impacted by the first-time application of IFRS 16 and the according accounting of lease liabilities within other financial liabilities.

#### 3.15. Other liabilities

Other liabilities totaled €144.0 million as of the balance sheet date (December 31, 2018: €133.0 million).

### 4. Information on the Cash Flow Statement

#### 4.1. Cash flow from operating activities

Cash flow from operating activities, which comprises positions not covered by investments, financing, currency differences from the translation of foreign transactions and transactions in foreign currencies or by changes due to the scope of consolidation and evaluation, amounted to €223.9 million in the first nine months of 2019 (1-9/2018: €196.1 million).

#### 4.2. Cash flow from investing activities

Cash flow from investing activities, which comprises cash outflows for investments less proceeds from disposals, was –€188.6 million in the first nine months of the current financial year (1–9/2018: –€252.8 million). Cash flow from investing activities was influenced in the reporting period mainly by payouts for investments in intangible assets.

#### 4.3. Cash flow from financing activities

Cash flow from financing activities in the first nine months of the current financial year amounted to –€186.8 million (1-9/2018: €35.7 million). Among other things, the cash flow from financing activities was influenced by the settlement of financial liabilities from leasing arrangements which do also consider repayments for financial liabilities that have arisen in connection with the new leasing standard IFRS 16 which was applied beginning from 1 January 2019.

#### 4.4. Cash flow of the current period

Cash flow of the current financial period was –€154.5 million in the first nine months of 2019 (1-9/2018: –€21.2 million), as a net figure of all cash inflows and outflows from the cash flow from operating activities, cash flow from investing and financing activities, in addition to changes in financial resources due to the foreign exchange rate and/or scope of consolidation.

## Notes (Continued)

### 5. Disclosures about fair value measurements and financial instruments

The table below provides information on how the valuations of assets and liabilities measured at fair value have been determined:

Fair values according to hierarchy level in k € on a recurring basis	Stage 1 Listed prices on active markets		Stage 2 Valuation methods with input parameters observable on the market		Stage 3 Valuation methods with input parameters not observable on the market	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
Financial assets (FVOCI)						
• Financial assets . . . . .	3,913	—	—	—	—	—
• Factorable receivables . . . . .	—	—	17,808	22,794	—	—
Financial assets (FVPL)						
• Currency forwards . . . . .	—	—	5	35	—	—
Derivative financial assets with a hedging relationship						
• Fair value hedges . . . . .	—	—	6	3	—	—
Financial liabilities (FVPL)						
• Currency forwards . . . . .	—	—	271	120	—	—
• Interest rate swaps . . . . .	—	—	6,314	—	—	—
Derivative financial liabilities with a hedging relationship						
• Fair value hedges . . . . .	—	—	1,720	3,101	—	—

Financial assets recognized at fair value through other comprehensive income (FVOCI) include factorable receivables. These financial assets, which are still included in trade accounts receivable, are recognized at fair value through other comprehensive income and are therefore included in the table above. Changes in the fair value of these receivables—which differs from the measurement at amortized cost to only a minor extent—are recognized through other comprehensive income in the FVOCI reserve. Newly included in this category are the shares acquired in the reporting period from the Swedish company XBrane. Because the company's shares are traded on the stock exchange, they have been classified in Stage 1.

In preparing the financial statements, STADA verifies the assignment to the respective hierarchy levels based on the information available on the determination of the fair values. If a need for reclassification is found here, the reclassification will take place at the start of the reporting period.

The fair values are analyzed when preparing the financial statements. For this purpose, market comparisons and change analyses are carried out.

Financial assets and financial liabilities measured at fair value through profit or loss (FVPL) include positive and negative market values of derivative financial instruments (currency and interest rate swaps) which are not in a hedging relationship. The fair values of currency forwards were determined in the Group's own system according to standardized procedures and using customary financial mathematical methods based on current data such as spot prices and swap rates provided by a recognized information service.

In the Group, currency forwards are designated as fair value hedges that are concluded to hedge the currency from intercompany loans with companies that conduct their accounting in a local currency other than euros. Changes in the value of the underlying currency—which result from changes in the respective currency exchange rates—are offset by the changes in value of the currency forwards. The purpose of the fair value hedges is therefore to hedge the currency risk of these financial liabilities. Credit risks are not reflected in the hedge. The effectiveness of the hedging relationship is reviewed prospectively and retrospectively on each closing date. As of this balance-sheet date, all designated hedging relationships were sufficiently effective.

## Notes (Continued)

### 5. Disclosures about fair value measurements and financial instruments (Continued)

For financial assets and liabilities whose fair value deviates from the carrying amount, the following information as of September 30, 2019 was provided:

in k €	Nominal value on Sept. 30, 2019	Carrying amount on Sept. 30, 2019	Fair value on Sept. 30, 2019	Nominal value on Dec. 31, 2018	Carrying amount on Dec. 31, 2018	Fair value on Dec. 31, 2018
Amounts due to banks . . . . .	2,445,553	2,374,173	2,497,518	2,445,314	2,363,054	2,470,133
Promissory note loans . . . . .	52,500	53,202	54,952	178,000	182,321	183,499
Bonds . . . . .	1,592,394	1,580,231	1,659,093	1,599,070	1,584,370	1,518,351
<b>Financial liabilities due to banks and debt investors . . . . .</b>	<b>4,090,447</b>	<b>4,007,606</b>	<b>4,211,563</b>	<b>4,222,384</b>	<b>4,129,745</b>	<b>4,171,983</b>
Financial liabilities to shareholders . .	1,066,789	1,066,789	1,263,469	1,015,990	1,015,990	1,114,304
Financial liabilities due to DPLTA . . .	—	290,595	290,595	—	294,253	294,253
<b>Financial liabilities . . . . .</b>	<b>5,157,236</b>	<b>5,364,989</b>	<b>5,765,627</b>	<b>5,238,374</b>	<b>5,439,988</b>	<b>5,580,540</b>

The financial liabilities presented in the table are assigned to the measurement category “Financial liabilities measured at amortized cost” pursuant to IFRS 9.

For all other financial assets and liabilities except those shown in the table above, the carrying amount—approximately or based on measurement methods by taking listed prices on active markets or input parameters observable on the market as a basis—corresponds to the relevant fair value of the individual financial assets and liabilities.

### 6. Contingent liabilities and other financial obligations

Contingent liabilities are possible obligations to third parties as a result of past events and which, in future, could lead to outflows of resources depending on certain events. On the reporting date, they were considered unlikely and therefore not accounted for.

For the calculation of potential obligations from patent risks, within the scope of the reporting on contingent liabilities, the expiration date of the underlying patent has been used since the beginning of financial year 2019. Had this calculation logic already been used as of December 31, 2018, contingent liabilities in the amount of €50.8 million would have been reported (instead of €31.0 million which was published as of December 31, 2018).

The revised contingent liabilities of €50.8 million listed above, increased slightly by €0.4 million to €51.2 million in the first nine months of 2019. The reduction of material potential obligations relating to patent risks were hereby offset by new material potential obligations arising out of other pending legal disputes as of September 30, 2019.

In addition to contingent liabilities, other future financial obligations existed, which can be divided as follows:

in k €	Sept. 30, 2019	Dec. 31, 2018
Obligations from leases . . . . .	3,295	48,743
Other financial obligations . . . . .	79,008	84,408
<b>Total . . . . .</b>	<b>82,303</b>	<b>133,151</b>

The reduction of obligations from leasing as compared to the previous year relates to the first-time application of IFRS 16 as of January 1, 2019 which means that obligations from (operating) leases are to be generally recognized as a liability in the balance sheet. In the information on future obligations from leasing relationships as of September 30, 2019, for example, short-term leasing relationships as well as leases for low-value assets are included.



## Notes (Continued)

### 6. Contingent liabilities and other financial obligations (Continued)

In other financial obligations, long-term obligations for logistics services providers are reported. Furthermore, bona fide contingent liabilities and further guarantees are included.

### 7. Related party transactions

As part of ordinary business activity, there are business relationships with related persons and companies between Nidda German Topco GmbH and/or their consolidated companies. Directly or indirectly managed associates and joint ventures, which are not consolidated subsidiaries for reasons of materiality, and persons in key positions and their relatives are understood as “related” in accordance with IAS 24. Generally, all transactions with related companies and persons are settled at market conditions.

As of reporting date September 30, 2019 Nidda German Topco GmbH accounts for a shareholder loan, owed to Nidda Midco S.à r.l., Luxembourg, with a total amount of €1,066.8 million (31.12.2018: 1,016.0 million). The increase is relating to interest accrued from the previous financial year, which was capitalized within the shareholder loan at the beginning of the current financial year.

As of September 30, 2019, there were outstanding liabilities to members and former members of the Executive Board of STADA Arzneimittel AG in the amount of €1.9 million (31.12.2018: €1.0 million), including €0.5 million relating to indemnities.

### Equity-settled share purchase plan

The major shareholders of Nidda German Topco GmbH’s ultimate parent, Nidda Topco S.à.r.l., Luxembourg, have offered a share purchase plan to selected management personnel of the group, including all members of STADA’s executive management board and some members of its supervisory board (key management personnel). In accordance with the terms of the offer, eligible management personnel is entitled to acquire interest in a German limited liability partnership (GmbH & Co KG). The limited partnership interest in the partnership amount to €7.3 million and are held by key management personnel (24%), other management personnel (48%), and major shareholders of Nidda Topco S.à.r.l., Luxembourg, and third-parties (28%). Correspondingly, the partnership holds 8.0% of ordinary shares issued by Nidda Topco S.à.r.l., Luxembourg.

The purchase price of the limited partnership interest in GmbH & Co KG is determined at each acquisition date based on the fair value of the ordinary shares in Nidda Topco S.à.r.l., Luxembourg and the additional features of the program. The fair value of the ordinary shares in Nidda Topco S.à.r.l., Luxembourg, is determined based on a discounted cash flow valuation considering the projected cash flows from the investment in STADA as well as for the financing instruments issued by Nidda group entities. The purchase price calculation is deemed to represent the fair value of the GmbH & Co KG partnership interest, but not to generate additional management compensation. If still employed by the company, management will participate through this investment in the change of fair value of the ordinary shares in Nidda Topco S.à.r.l., Luxembourg, by finally selling the shares along with the other shareholders of Nidda Topco S.à.r.l., Luxembourg.

Neither Nidda Topco S.à.r.l., Luxembourg, Nidda German Topco GmbH nor any other group entity has an obligation to pay any amount to management under this program. In accordance with IFRS 2, the program is treated as an equity-settled plan, which provides no or no material additional compensation to management personnel.

### 8. Report on Post-Balance Sheet Date Events

On November 4, 2019, STADA Arzneimittel AG announced<sup>2</sup> the acquisition of Walmark a.s. from Mid Europa Partners for an expected aggregate enterprise value of €150 million<sup>3</sup>. Walmark is a leading manufacturer of Consumer Health products in Central Europe with a unique portfolio of well-established Consumer Health brands across multiple categories. These include Vitamins and Minerals, Children’s Health, Women’s Health, Men’s Health, Joint Care, Digestive and Intestinal, and Cough and Cold and are set to generate continued strong growth. Walmark’s product portfolio is highly complementary to STADA’s existing portfolio. The acquisition is expected to be financed by new debt financing.

<sup>2</sup> See Press Release of STADA Arzneimittel AG from November 4, 2019.

<sup>3</sup> The purchase price is subject to certain purchase price adjustments.

## Notes (Continued)

### 8. Report on Post-Balance Sheet Date Events (Continued)

On November 5, 2019, STADA Arzneimittel AG announced<sup>4</sup> the agreement to acquire a portfolio of selected products from Takeda Pharmaceutical Company Limited for a total value of \$660 Million USD.<sup>5</sup> The portfolio of approximately 20 selected over-the-counter ('OTC') and prescription pharmaceutical assets sold inter alia in Russia, Georgia, Azerbaijan, Belarus, Kazakhstan, and Uzbekistan will be divested to STADA Arzneimittel AG. The portfolio includes OTC-vitamins and food supplements, plus selected products within the cardiovascular, diabetes, general medicine, and respiratory therapeutic areas. It is expected that the highly capable approximately 500-strong sales and marketing team from Takeda's business will transfer to STADA on completion of the transaction, which is expected in the first quarter of 2020. In addition, Takeda and STADA will enter into manufacturing and supply agreements in connection with the acquisition under which Takeda will continue to supply the products to STADA. The acquisition is expected to be financed by new debt financing.

On November 6, 2019, STADA and the biopharmaceutical company Alvotech announced<sup>6</sup> that they have entered into an exclusive strategic partnership for the commercialisation of seven biosimilars in all key European markets and selected markets outside Europe. The initial pipeline contains biosimilar candidates aimed at treating autoimmunity, oncology and inflammatory conditions as well as ophthalmology for patients around the world. Under this partnership agreement, Alvotech will be responsible for the development, registration and supply of the biosimilars within the EU. STADA will be exclusively commercialising the products in the majority of the key European markets.

### 9. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH

In addition to the financial information of Nidda German Topco GmbH, the consolidated balance sheet, consolidated income statement and consolidated cash flow statement for the subgroups Nidda BondCo GmbH and Nidda Healthcare Holding GmbH are also presented. This presentation is in the form of a reconciliation, each of which has the financial figures of Nidda German Topco as a starting point. It should be noted that the explanations in the interim Group report refer to the consolidated figures of German Nidda Topco GmbH. The following financial figures are only available in the form of a reconciliation.

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<sup>4</sup> See Press Release of STADA Arzneimittel AG from November 5, 2019.

<sup>5</sup> The purchase price may be reduced by up to approximately \$50.0 million.

<sup>6</sup> See Press Release of STADA Arzneimittel AG from November 6, 2019.

## Notes (Continued)

### 9. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The reconciliation of the consolidated income statement for the first nine months of 2019 is as follows:

Jan. 1–Sept. 30, 2019					
Consolidated Income Statement in k €	Nidda German Topco GmbH	Reconciliation	Nidda BondCo GmbH	Reconciliation	Nidda Healthcare Holding GmbH
Sales . . . . .	1,902,979	—	1,902,979	—	1,902,979
Cost of sales . . . . .	1,025,866	—	1,025,866	—	1,025,866
<b>Gross profit . . . . .</b>	<b>877,113</b>	<b>—</b>	<b>877,113</b>	<b>—</b>	<b>877,113</b>
Selling expenses . . . . .	426,190	—	426,190	—	426,190
General and administrative expenses . . . . .	164,816	– 118	164,698	– 1,388	163,310
Research and development expenses	51,481	—	51,481	—	51,481
Other income . . . . .	23,553	—	23,553	—	23,553
Other expenses . . . . .	107,803	– 3	107,800	– 14	107,786
<b>Operating profit . . . . .</b>	<b>150,376</b>	<b>121</b>	<b>150,497</b>	<b>1,401</b>	<b>151,898</b>
Result from investments measured at equity . . . . .	– 1	—	– 1	—	– 1
Investment income . . . . .	—	—	—	—	—
Financial income . . . . .	7,306	3	7,309	422	7,731
Financial expenses . . . . .	197,059	– 39,894	157,165	– 540	156,625
<b>Financial result . . . . .</b>	<b>– 189,754</b>	<b>39,897</b>	<b>– 149,857</b>	<b>962</b>	<b>– 148,895</b>
<b>Earnings before taxes . . . . .</b>	<b>– 39,378</b>	<b>40,019</b>	<b>641</b>	<b>2,363</b>	<b>3,004</b>
Income taxes . . . . .	– 9,020	—	– 9,020	11,243	2,223
<b>Earnings after taxes . . . . .</b>	<b>– 30,358</b>	<b>40,019</b>	<b>9,661</b>	<b>– 8,881</b>	<b>780</b>
<b>Profit/loss transfer . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Result after Profit/loss transfer . . .</b>	<b>– 30,358</b>	<b>40,019</b>	<b>9,661</b>	<b>– 8,881</b>	<b>780</b>
thereof					
• distributable to Nidda German Topco GmbH (net result) . . . .	– 38,647	40,019	1,372	– 8,880	– 7,508
• distributable to non-controlling shareholders . . . . .	8,289	—	8,289	—	8,289
<b>Operating profit . . . . .</b>	<b>150,376</b>	<b>121</b>	<b>150,497</b>	<b>1,401</b>	<b>151,898</b>
Depreciation/Impairment . . . . .	296,635	—	296,635	—	296,635
Result from investments measured at equity/ investment result . . . .	– 1	—	– 1	—	– 1
<b>EBITDA . . . . .</b>	<b>447,010</b>	<b>121</b>	<b>447,131</b>	<b>1,401</b>	<b>448,532</b>
<b>Management adjusted EBITDA . . .</b>	<b>467,695</b>	<b>121</b>	<b>467,816</b>	<b>1,306</b>	<b>469,122</b>

## Notes (Continued)

### 9. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The reconciliation of the respective consolidated balance sheet as of September 30, 2019 is listed below:

	Sept. 30, 2019		Sept. 30, 2019		Sept. 30, 2019
Consolidated Balance Sheet in k € Assets	Nidda German Topco GmbH	Reconciliation	Nidda BondCo GmbH	Reconciliation	Nidda Healthcare Holding GmbH
<b>Non-current assets</b>	<b>5,207,747</b>	<b>722</b>	<b>5,208,469</b>	<b>132,032</b>	<b>5,340,501</b>
Intangible assets	4,640,621	—	4,640,621	—	4,640,621
Property, plant and equipment	517,988	—	517,988	—	517,988
Financial assets	6,117	—	6,117	—	6,117
Investments measured at equity	1,904	—	1,904	—	1,904
Other financial assets	823	722	1,545	140,676	142,221
Other assets	1,217	—	1,217	—	1,217
Deferred tax assets	39,077	—	39,077	– 8,644	30,433
<b>Current assets</b>	<b>1,687,378</b>	<b>– 477</b>	<b>1,686,901</b>	<b>– 13,327</b>	<b>1,673,574</b>
Inventories	600,634	—	600,634	—	600,634
Trade accounts receivable	541,324	—	541,324	—	541,324
Contract assets	294	—	294	—	294
Income tax receivables	27,707	—	27,707	– 13,031	14,676
Other financial assets	13,987	—	13,987	195	14,182
Other assets	52,580	18	52,598	– 385	52,213
Cash and cash equivalents	206,260	– 495	205,765	– 106	205,659
Non-current assets and disposal groups held for sale	244,592	—	244,592	—	244,592
<b>Total assets</b>	<b>6,895,125</b>	<b>245</b>	<b>6,895,370</b>	<b>118,705</b>	<b>7,014,075</b>
<b>Equity and liabilities</b>					
<b>Equity</b>	<b>– 352,970</b>	<b>1,107,209</b>	<b>754,239</b>	<b>859,997</b>	<b>1,614,236</b>
Share capital	25	—	25	25	50
Capital reserve	152,677	892,159	1,044,836	– 14,737	1,030,099
Retained earnings including net result	– 638,423	215,050	– 423,373	874,713	451,340
Other reserves	19,844	—	19,844	– 4	19,840
<b>Equity attributable to shareholders of the parent company</b>	<b>– 465,877</b>	<b>1,107,209</b>	<b>641,332</b>	<b>859,997</b>	<b>1,501,329</b>
Shares held by non-controlling shareholders	112,907	—	112,907	—	112,907
<b>Non-current borrowings</b>	<b>6,300,473</b>	<b>– 1,066,789</b>	<b>5,233,684</b>	<b>– 733,371</b>	<b>4,500,313</b>
Other non-current provisions	42,821	—	42,821	—	42,821
Financial liabilities	5,301,106	– 1,066,789	4,234,317	– 581,770	3,652,547
Other financial liabilities	39,968	—	39,968	587,257	627,225
Other liabilities	2,353	—	2,353	—	2,353
Deferred tax liabilities	914,225	—	914,225	– 738,858	175,367
<b>Current borrowings</b>	<b>947,622</b>	<b>– 40,175</b>	<b>907,447</b>	<b>– 7,921</b>	<b>899,526</b>
Other provisions	17,839	—	17,839	—	17,839
Financial liabilities	63,883	—	63,883	—	63,883
Trade accounts payable	347,557	– 137	347,420	– 1,361	346,059
Contract liabilities	1,009	—	1,009	—	1,009
Income tax liabilities	92,691	—	92,691	– 30,189	62,502
Other financial liabilities	240,637	– 39,909	200,728	28,450	229,178
Other liabilities	141,644	– 129	141,515	– 4,821	136,694
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	42,362	—	42,362	—	42,362
<b>Total equity and liabilities</b>	<b>6,895,125</b>	<b>245</b>	<b>6,895,370</b>	<b>118,705</b>	<b>7,014,075</b>
<b>Net debt (including IC loans and financial liability DPLTA)</b>	<b>5,158,729</b>	<b>– 1,066,294</b>	<b>4,092,435</b>	<b>– 135,083</b>	<b>3,957,352</b>
<b>Thereof:</b>					
• IC loan commitment	1,066,789		—		587,257
• IC loan receivable			—		140,676
• Financial liability due to DPLTA	290,595		290,595		290,595

## Notes (Continued)

### 9. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The reconciliation of the consolidated cash flow statement for the first nine months of 2019 is as follows:

Consolidated Cash Flow Statement in k €	Sept. 30, 2019	Reconciliation	Sept. 30, 2019	Reconciliation	Sept. 30, 2019
	Nidda German Topco GmbH		Nidda BondCo GmbH		Nidda Healthcare Holding GmbH
Earnings after taxes . . . . .	– 30,358	40,019	9,661	– 8,881	780
Depreciations of fixed assets . . . . .	296,635	—	296,635	—	296,635
Income taxes . . . . .	– 9,020	—	– 9,020	11,243	2,223
Income tax paid . . . . .	– 44,501	—	– 44,501	12,377	– 32,124
Interest income and expenses . . . . .	189,753	– 39,898	149,855	– 962	148,893
Interest and dividends received . . . . .	789	—	789	380	1,169
Interest paid . . . . .	– 145,410	—	– 145,410	—	– 145,410
Result from investments measured at equity . . . . .	1	—	1	—	1
Result from the disposal of non-current assets . . . . .	– 655	—	– 655	—	– 655
Additions to/reversals of other non-current provisions . . . . .	2,543	—	2,543	—	2,543
Currency translation income and expenses . . . . .	2,405	—	2,405	—	2,405
Other non-cash expenses and gains . . . . .	201,588	—	201,588	– 1,200	200,388
<b>Gross cash flow . . . . .</b>	<b>463,770</b>	<b>121</b>	<b>463,891</b>	<b>12,957</b>	<b>476,848</b>
Changes in inventories . . . . .	– 96,257	—	– 96,257	—	– 96,257
Changes in trade accounts receivable . . . . .	– 17,720	—	– 17,720	—	– 17,720
Changes in trade accounts payable . . . . .	20,188	182	20,370	1,772	22,142
Changes in other net assets, unless attributable to investing or financing activities . . . . .	– 146,047	– 178	– 146,225	– 1,875	– 148,100
<b>Cash flow from operating activities . . . . .</b>	<b>223,934</b>	<b>125</b>	<b>224,059</b>	<b>12,854</b>	<b>236,913</b>
Payments for investments in					
• intangible assets . . . . .	– 135,786	—	– 135,786	—	– 135,786
• property, plant and equipment . . . . .	– 59,729	—	– 59,729	—	– 59,729
• financial assets . . . . .	– 4,504	—	– 4,504	—	– 4,504
• business combinations in accordance with IFRS 3 . . . . .	0	—	0	—	0
Proceeds from the disposal of					
• intangible assets . . . . .	712	—	712	—	712
• property, plant and equipment . . . . .	5,033	—	5,033	—	5,033
• financial assets . . . . .	0	—	0	—	0
• shares in consolidated companies . . . . .	5,708	—	5,708	—	5,708
<b>Cash flow from investing activities . . . . .</b>	<b>– 188,566</b>	<b>—</b>	<b>– 188,566</b>	<b>—</b>	<b>– 188,566</b>
Borrowing of funds . . . . .	8,104	—	8,104	—	8,104
Settlement of financial liabilities . . . . .	– 156,657	—	– 156,657	—	– 156,657
Settlement of lease liabilities . . . . .	– 20,446	—	– 20,446	—	– 20,446
Dividend distribution . . . . .	– 17,022	—	– 17,022	—	– 17,022
Capital increase . . . . .	0	—	0	—	0
Changes in non-controlling interests . . . . .	– 818	—	– 818	—	– 818
<b>Cash flow from financing activities . . . . .</b>	<b>– 186,839</b>	<b>—</b>	<b>– 186,839</b>	<b>—</b>	<b>– 186,839</b>
<b>Changes in cash and cash equivalents . . . . .</b>	<b>– 151,471</b>	<b>125</b>	<b>– 151,346</b>	<b>12,854</b>	<b>– 138,492</b>
Changes in cash/cash equivalents due to scope of consolidation . . . . .	– 4,314	—	– 4,314	—	– 4,314
Changes in cash and cash equivalents due to exchange rates . . . . .	1,296	—	1,296	—	1,296
<b>Net change in cash and cash equivalents . . . . .</b>	<b>– 154,489</b>	<b>125</b>	<b>– 154,364</b>	<b>12,854</b>	<b>– 141,510</b>
<b>Balance at beginning of the period . . . . .</b>	<b>360,749</b>	<b>– 620</b>	<b>360,129</b>	<b>– 12,960</b>	<b>347,169</b>
<b>Balance at end of the period . . . . .</b>	<b>206,260</b>	<b>– 495</b>	<b>205,765</b>	<b>– 106</b>	<b>205,659</b>
<b>Free cash flow . . . . .</b>	<b>35,368</b>	<b>125</b>	<b>35,493</b>	<b>12,854</b>	<b>48,347</b>
<b>Adjusted free cash flow . . . . .</b>	<b>138,960</b>	<b>125</b>	<b>139,085</b>	<b>12,854</b>	<b>151,939</b>



## Notes (Continued)

### 9. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The reconciliation of the consolidated income statement for the first nine months of 2018 is as follows:

Consolidated Income Statement in k €	Jan. 1–Sept. 30, 2018				
	Nidda German Topco GmbH	Reconciliation	Nidda BondCo GmbH	Reconciliation	Nidda Healthcare Holding GmbH
Sales . . . . .	1,708,260	—	1,708,260	—	1,708,260
Cost of sales . . . . .	1,053,030	—	1,053,030	—	1,053,030
<b>Gross profit . . . . .</b>	<b>655,230</b>	<b>—</b>	<b>655,230</b>	<b>—</b>	<b>655,230</b>
Selling expenses . . . . .	383,139	—	383,139	—	383,139
General and administrative expenses .	144,052	– 7,958	136,094	– 1,502	134,592
Research and development expenses . .	53,681	—	53,681	—	53,681
Other income . . . . .	32,050	—	32,050	—	32,050
Other expenses . . . . .	70,621	– 4	70,617	– 13	70,603
<b>Operating profit . . . . .</b>	<b>35,787</b>	<b>7,962</b>	<b>43,749</b>	<b>1,515</b>	<b>45,264</b>
Result from investments measured at equity . . . . .	3,654	—	3,654	—	3,654
Investment income . . . . .	—	—	—	—	—
Financial income . . . . .	16,604	4	16,608	—	16,608
Financial expenses . . . . .	160,048	– 37,995	122,053	– 608	121,445
<b>Financial result . . . . .</b>	<b>– 139,790</b>	<b>37,998</b>	<b>– 101,792</b>	<b>608</b>	<b>– 101,184</b>
<b>Earnings before taxes . . . . .</b>	<b>– 104,003</b>	<b>45,959</b>	<b>– 58,044</b>	<b>2,123</b>	<b>– 55,921</b>
Income taxes . . . . .	20,183	– 2	20,181	– 4,462	15,719
<b>Earnings after taxes . . . . .</b>	<b>– 124,186</b>	<b>45,962</b>	<b>– 78,224</b>	<b>6,585</b>	<b>– 71,639</b>
<b>Profit/loss transfer . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Result after Profit/loss transfer . . . . .</b>	<b>– 124,186</b>	<b>45,962</b>	<b>– 78,224</b>	<b>6,585</b>	<b>– 71,639</b>
thereof					
• distributable to Nidda German Topco GmbH (net result) . . . . .	– 113,975	45,962	– 68,013	6,585	– 61,428
• distributable to non-controlling shareholders . . . . .	– 10,211	—	– 10,211	—	– 10,211
<b>Operating profit . . . . .</b>	<b>35,787</b>	<b>7,962</b>	<b>43,749</b>	<b>1,515</b>	<b>45,264</b>
Depreciation/Impairment . . . . .	250,414	—	250,414	—	250,414
Result from investments measured at equity/ investment result . . . . .	3,654	—	3,654	—	3,654
<b>EBITDA . . . . .</b>	<b>289,855</b>	<b>7,962</b>	<b>297,817</b>	<b>1,515</b>	<b>299,332</b>
<b>Management adjusted EBITDA . . . . .</b>	<b>388,093</b>	<b>284</b>	<b>388,377</b>	<b>1,030</b>	<b>389,407</b>

## Notes (Continued)

### 9. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The reconciliation of the respective consolidated balance sheet as of September 30, 2018 is listed below:

	Sept. 30, 2018		Sept. 30, 2018		Sept. 30, 2018
	Nidda German Topco GmbH		Nidda BondCo GmbH		Nidda Healthcare Holding GmbH
Consolidated Balance Sheet in k € Assets		Reconciliation		Reconciliation	
<b>Non-current assets</b>	<b>5,441,880</b>	<b>49,228</b>	<b>5,491,108</b>	<b>49,443</b>	<b>5,540,551</b>
Intangible assets	4,935,667	—	4,935,667	—	4,935,667
Property, plant and equipment	437,596	—	437,596	—	437,596
Financial assets	1,997	—	1,997	—	1,997
Investments measured at equity	25,694	—	25,694	—	25,694
Other financial assets	1,395	49,228	50,623	61,983	112,606
Other assets	1,143	—	1,143	—	1,143
Deferred tax assets	38,388	—	38,388	– 12,540	25,848
<b>Current assets</b>	<b>1,571,061</b>	<b>– 333</b>	<b>1,570,728</b>	<b>– 1,983</b>	<b>1,568,745</b>
Inventories	500,598	—	500,598	—	500,598
Trade accounts receivable	506,159	—	506,159	—	506,159
Contract assets	727	—	727	—	727
Income tax receivables	28,721	—	28,721	—	28,721
Other financial assets	15,507	—	15,507	—	15,507
Other assets	65,706	186	65,892	– 5	65,887
Cash and cash equivalents	453,593	– 519	453,074	– 1,978	451,096
Non-current assets and disposal groups held for sale	50	—	50	—	50
<b>Total assets</b>	<b>7,012,941</b>	<b>48,895</b>	<b>7,061,836</b>	<b>47,460</b>	<b>7,109,296</b>
	Sept. 30, 2018		Sept. 30, 2018		Sept. 30, 2018
<b>Equity and liabilities</b>					
<b>Equity</b>	<b>– 174,351</b>	<b>1,103,470</b>	<b>929,119</b>	<b>58,008</b>	<b>987,127</b>
Share capital	25	—	25	25	50
Capital reserve	152,677	945,017	1,097,694	– 14,737	1,082,957
Retained earnings including net result	– 396,553	158,453	– 238,100	72,720	– 165,380
Other reserves	– 24,287	—	– 24,287	—	– 24,287
<b>Equity attributable to shareholders of the parent company</b>	<b>– 268,138</b>	<b>1,103,470</b>	<b>835,332</b>	<b>58,008</b>	<b>893,340</b>
Shares held by non-controlling shareholders	93,787	—	93,787	—	93,787
<b>Non-current borrowings</b>	<b>6,204,539</b>	<b>– 1,015,992</b>	<b>5,188,547</b>	<b>– 13,115</b>	<b>5,175,432</b>
Other non-current provisions	34,477	—	34,477	—	34,477
Financial liabilities	5,190,888	– 1,015,989	4,174,899	– 334,250	3,840,649
Other financial liabilities	5,471	—	5,471	340,000	345,471
Other liabilities	1,058	– 1	1,057	—	1,057
Deferred tax liabilities	972,645	– 2	972,643	– 18,865	953,778
<b>Current borrowings</b>	<b>982,753</b>	<b>– 38,583</b>	<b>944,170</b>	<b>2,567</b>	<b>946,737</b>
Other provisions	22,925	—	22,925	—	22,925
Financial liabilities	180,993	—	180,993	—	180,993
Trade accounts payable	287,025	– 602	286,423	– 64	286,359
Contract liabilities	717	—	717	—	717
Income tax liabilities	109,171	—	109,171	– 166	109,005
Other financial liabilities	223,269	– 37,981	185,288	2,797	188,085
Other liabilities	158,653	—	158,653	—	158,653
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	—	—	—	—	—
<b>Total equity and liabilities</b>	<b>7,012,941</b>	<b>48,895</b>	<b>7,061,836</b>	<b>47,460</b>	<b>7,109,296</b>
<b>Net debt (including IC loans and financial liability DPLTA)</b>	<b>4,918,288</b>	<b>– 1,064,354</b>	<b>3,853,934</b>	<b>56,612</b>	<b>3,910,546</b>
Thereof:					
• IC loan commitment	1,015,989				340,000
• IC loan receivable			48,884		
• Financial liability due to DPLTA	1,623,823		1,623,823		1,623,823

## Notes (Continued)

### 9. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The reconciliation of the consolidated cash flow statement for the first nine months of 2018 is as follows:

Consolidated Cash Flow Statement in k €	Sept. 30, 2018	Reconciliation	Sept. 30, 2018	Reconciliation	Sept. 30, 2018
	Nidda German Topco GmbH		Nidda BondCo GmbH		Nidda Healthcare Holding GmbH
Earnings after taxes . . . . .	– 124,186	45,962	– 78,224	6,585	– 71,639
Depreciations of fixed assets . . . . .	250,414	—	250,414	—	250,414
Income taxes . . . . .	20,183	– 2	20,181	– 4,462	15,719
Income tax paid . . . . .	– 36,323	—	– 36,323	—	– 36,323
Interest income and expenses . . . . .	143,444	– 37,999	105,445	– 608	104,837
Interest and dividends received . . . . .	3,935	—	3,935	—	3,935
Interest paid . . . . .	– 72,434	—	– 72,434	—	– 72,434
Result from investments measured at equity . . . . .	– 3,654	—	– 3,654	—	– 3,654
Result from the disposal of non-current assets . . . . .	209	—	209	—	209
Additions to/reversals of other non-current provisions . . . . .	2,443	—	2,443	—	2,443
Currency translation income and expenses . . . . .	857	—	857	—	857
Other non-cash expenses and gains . . . . .	273,722	—	273,722	—	273,722
<b>Gross cash flow . . . . .</b>	<b>458,610</b>	<b>7,961</b>	<b>466,571</b>	<b>1,515</b>	<b>468,086</b>
Changes in inventories . . . . .	– 18,219	—	– 18,219	—	– 18,219
Changes in trade accounts receivable . . . . .	12,198	—	12,198	—	12,198
Changes in trade accounts payable . . . . .	– 69,957	– 594	– 70,551	379	– 70,172
Changes in other net assets, unless attributable to investing or financing activities . . . . .	– 186,558	– 7,069	– 193,627	– 34	– 193,661
<b>Cash flow from operating activities . . . . .</b>	<b>196,074</b>	<b>298</b>	<b>196,372</b>	<b>1,860</b>	<b>198,232</b>
Payments for investments in					
• intangible assets . . . . .	– 246,121	—	– 246,121	—	– 246,121
• property, plant and equipment . . . . .	– 31,854	—	– 31,854	—	– 31,854
• financial assets . . . . .	– 85	—	– 85	—	– 85
• business combinations in accordance with IFRS 3 . . . . .	18,503	—	18,503	—	18,503
Proceeds from the disposal of					
• intangible assets . . . . .	990	—	990	—	990
• property, plant and equipment . . . . .	1,148	—	1,148	—	1,148
• financial assets . . . . .	—	—	—	—	—
• shares in consolidated companies . . . . .	4,593	—	4,593	—	4,593
<b>Cash flow from investing activities . . . . .</b>	<b>– 252,826</b>	<b>—</b>	<b>– 252,826</b>	<b>—</b>	<b>– 252,826</b>
Borrowing of funds . . . . .	827,834	—	827,834	—	827,834
Settlement of financial liabilities . . . . .	– 784,230	—	– 784,230	—	– 784,230
Settlement of finance lease liabilities . . . . .	– 1,224	—	– 1,224	—	– 1,224
Dividend distribution . . . . .	– 4,467	—	– 4,467	—	– 4,467
Capital increase . . . . .	—	—	—	—	—
Changes in non-controlling interests . . . . .	– 2,234	—	– 2,234	—	– 2,234
<b>Cash flow from financing activities . . . . .</b>	<b>35,679</b>	<b>—</b>	<b>35,679</b>	<b>—</b>	<b>35,679</b>
<b>Changes in cash and cash equivalents . . . . .</b>	<b>– 21,073</b>	<b>298</b>	<b>– 20,775</b>	<b>1,860</b>	<b>– 18,915</b>
Changes in cash/cash equivalents due to scope of consolidation . . . . .	153	—	153	—	153
Changes in cash and cash equivalents due to exchange rates . . . . .	– 264	—	– 264	—	– 264
<b>Net change in cash and cash equivalents . . . . .</b>	<b>– 21,184</b>	<b>298</b>	<b>– 20,886</b>	<b>1,860</b>	<b>– 19,026</b>
<b>Balance at beginning of the period . . . . .</b>	<b>474,777</b>	<b>– 817</b>	<b>473,960</b>	<b>– 3,838</b>	<b>470,122</b>
<b>Balance at end of the period . . . . .</b>	<b>453,593</b>	<b>– 519</b>	<b>453,074</b>	<b>– 1,978</b>	<b>451,096</b>
<b>Free cash flow . . . . .</b>	<b>– 56,752</b>	<b>298</b>	<b>– 56,454</b>	<b>1,860</b>	<b>– 54,594</b>
<b>Adjusted free cash flow . . . . .</b>	<b>143,539</b>	<b>298</b>	<b>143,837</b>	<b>1,860</b>	<b>145,697</b>

**CONSOLIDATED FINANCIAL STATEMENTS OF NIDDA GERMAN TOPCO GMBH  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Nidda German Topco GmbH Consolidated Financial Statements**  
**Consolidated Income Statement**

<u>Consolidated income statement in € k</u>	<u>2018</u>	<u>Apr 18,–Dec 31, 2017<sup>1</sup></u>	<u>Explanation</u>
Sales . . . . .	2,330,824	824,901	11.
Cost of sales . . . . .	1,408,239	664,215	12.
<b>Gross profit . . . . .</b>	<b>922,585</b>	<b>160,686</b>	
Selling expenses . . . . .	538,596	200,595	13.
General and administrative expenses . . . . .	212,449	175,558	14.
Research and development expenses . . . . .	72,256	23,083	15.
Other income . . . . .	69,824	15,932	16.
Other expenses . . . . .	141,255	82,402	17.
<b>Operating result . . . . .</b>	<b>27,853</b>	<b>– 305,020</b>	
Result from investments measured at equity . . . . .	3,722	– 521	
Investment income . . . . .	42	– 1	
Financial income . . . . .	17,755	2,437	
Financial expenses . . . . .	330,471	69,207	
<b>Financial result . . . . .</b>	<b>– 308,952</b>	<b>– 67,292</b>	18.
<b>Earnings before taxes . . . . .</b>	<b>– 281,099</b>	<b>– 372,312</b>	
Income tax expenses . . . . .	15,785	– 37,885	19.
<b>Earnings after taxes . . . . .</b>	<b>– 296,884</b>	<b>– 334,427</b>	
thereof			
• Result attributable to shareholders of Nidda German Topco GmbH (net income) . . . . .	<b>– 286,809</b>	– 279,718	
• Attributable to the non-controlling shareholders . . . . .	<b>– 10,075</b>	– 54,709	20.

<sup>1</sup> The previous year's figures are provided on the basis of the final purchase price allocation. This has therefore resulted in deviations to the figures published in the Consolidated Financial Statements as of December 31, 2017 which were reported on the basis of the preliminary purchase price allocation. See also note 8 in the notes to the Consolidated Financial Statements for further explanations of the effects between the final and preliminary purchase price allocation.



## Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income in € k	2018	Apr 18,–Dec. 31, 2017 <sup>2</sup>	Explanation
<b>Earnings after taxes</b> . . . . .	<b>– 296,884</b>	<b>– 334,427</b>	
<b>Items to be recycled to the income statement in the future:</b>			
<b>Currency translation gains and losses</b> . . . . .	<b>– 65,084</b>	<b>19,399</b>	34.
thereof			
• Income tax expenses . . . . .	397	– 4,517	19.
<b>Gains and losses on financial assets (FVOCI)</b> . . . . .	<b>27</b>	<b>—</b>	47.
thereof			
• Income tax expenses . . . . .	– 7	—	19.
<b>Items not to be recycled to the income statement in the future:</b>			
<b>Revaluation of net debt from defined benefit plans</b> . . . . .	<b>886</b>	<b>1,215</b>	35.
thereof			
• Income tax expenses . . . . .	– 15	– 179	19.
<b>Other income</b> . . . . .	<b>– 64,171</b>	<b>20,614</b>	
thereof			
• attributable to disposal groups in accordance with IFRS 5 . . . . .	—	—	
<b>Consolidated comprehensive income</b> . . . . .	<b>– 361,055</b>	<b>– 313,813</b>	
thereof			
• attributable to the shareholders of Nidda German Topco GmbH . . . . .	– 350,087	– 265,648	
• attributable to the non-controlling shareholders . . . . .	– 10,968	– 48,165	

<sup>2</sup> The previous year's figures are provided on the basis of the final purchase price allocation. This has therefore resulted in deviations to the figures published in the Consolidated Financial Statements as of December 31, 2017 which were reported on the basis of the preliminary purchase price allocation. See also note 8 in the notes to the Consolidated Financial Statements for further explanations of the effects between the final and preliminary purchase price allocation.

## Consolidated Balance Sheet

Consolidated balance sheet in € k	Dec. 31, 2018	Dec. 31, 2017 <sup>3</sup>	Explanation
<b>Assets</b>			
<b>Non-current assets</b>	<b>5,398,693</b>	<b>5,427,342</b>	
Intangible assets	4,890,305	4,923,190	23.
Property, plant and equipment	444,754	428,851	24.
Financial position	2,281	1,978	25.
Investments measured at equity	24,568	43,335	26.
Other financial assets	823	1,087	29.
Other assets	1,164	1,330	30.
Deferred tax assets	34,798	27,571	19.
<b>Current assets</b>	<b>1,475,018</b>	<b>1,649,344</b>	
Inventories	515,251	585,105	31.
Trade accounts receivable	516,011	520,441	27.
Return assets	620	—	28.
Income tax receivables	18,095	22,062	19.
Other financial assets	12,755	9,809	29.
Other assets	51,487	35,323	30.
Cash and cash equivalents	360,749	474,777	32.
Non-current assets and disposal groups held for sale	50	1,827	33.
<b>Total assets</b>	<b>6,873,711</b>	<b>7,076,686</b>	
<b>Liabilities</b>			
<b>Equity</b>	<b>– 369,764</b>	<b>1,533,475</b>	34.
Share capital	25	25	
Capital reserve	152,677	670,066	
Retained earnings including net result	– 592,137	– 279,051	
Other reserves	– 50,756	13,403	
<b>Equity attributable to shareholders of the parent</b>	<b>– 490,191</b>	<b>404,443</b>	
Shares held by non-controlling shareholders	120,427	1,129,032	
<b>Non-current borrowed capital</b>	<b>5,987,381</b>	<b>3,463,889</b>	
Other non-current provisions	33,490	35,293	35.
Financial liabilities	4,972,080	2,404,316	36.
Other financial liabilities	7,841	4,476	39.
Other liabilities	2,460	951	40.
Deferred tax liabilities	971,510	1,018,854	19.
<b>Current borrowed capital</b>	<b>1,256,094</b>	<b>2,079,322</b>	
Other provisions	22,543	23,507	41.
Financial liabilities	467,908	1,293,035	36.
Trade accounts payable	320,913	341,624	37.
Contract liabilities	1,491	—	38.
Income tax liabilities	88,373	78,592	19.
Other financial liabilities	224,308	215,109	39.
Other liabilities	130,558	127,455	40.
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	—	—	33.
<b>Total liabilities</b>	<b>6,873,711</b>	<b>7,076,686</b>	

<sup>3</sup> The previous year's figures are provided on the basis of the final purchase price allocation. This has therefore resulted in deviations to the figures published in the Consolidated Financial Statements as of December 31, 2017 which were reported on the basis of the preliminary purchase price allocation. See also note 8 in the notes to the Consolidated Financial Statements for further explanations of the effects between the final and preliminary purchase price allocation.

## Consolidated Cash Flow Statement

Consolidated Cash Flow Statement in € k	2018	Apr 18–Dec. 31, 2017 <sup>4</sup>	Explanation
Net income . . . . .	– 296,884	– 334,427	
Depreciation and amortization of non-current assets . . . . .	390,838	118,263	22.
Income tax expenses . . . . .	15,785	– 37,885	19.
Income tax paid . . . . .	– 47,196	– 31,419	
Interest income and expenses . . . . .	312,716	66,840	18.
Interest and dividends received . . . . .	4,726	1,491	
Interest paid . . . . .	– 111,564	– 30,596	
Result from investments measured at equity . . . . .	– 3,722	521	18.
Result from the disposal of non-current assets . . . . .	1,421	4,866	16./17.
Additions to/reversals of other non-current provisions . . . . .	2,673	962	35.
Currency translation income and expenses . . . . .	– 1,090	928	16./17.
Other non-cash expenses and gains . . . . .	254,970	231,430	
<b>Gross cash flow . . . . .</b>	<b>522,673</b>	<b>– 9,023</b>	
Changes in inventory . . . . .	– 44,867	6,214	31.
Changes in trade accounts receivable . . . . .	485	– 3,757	27.
Changes in trade accounts payable . . . . .	– 48,999	30,309	37.
Changes in other net assets, unless attributable to investing or financing activities . . . . .	– 197,912	48,214	
<b>Cash flow from operating activities . . . . .</b>	<b>231,380</b>	<b>71,958</b>	43.
Payments for investments in			
• intangible assets . . . . .	– 280,284	– 17,617	23.
• property, plant and equipment . . . . .	– 48,063	– 15,916	24.
• financial position . . . . .	– 280	– 200	25.
• business combinations under IFRS 3 . . . . .	19,185	– 2,434,527	8.
Proceeds from disposals of			
• intangible assets . . . . .	1,278	768	23.
• property, plant and equipment . . . . .	1,655	1,731	24.
• financial position . . . . .	—	—	25.
• shares in consolidated companies . . . . .	6,225	—	
<b>Cash flow from investing activities . . . . .</b>	<b>– 300,284</b>	<b>– 2,465,761</b>	43.
Borrowing of funds . . . . .	2,538,500	3,288,834	36.
Settlements of financial liabilities . . . . .	– 1,097,674	– 1,058,949	36.
Settlement of finance lease liabilities . . . . .	– 1,699	– 1,350	
Dividend distributions . . . . .	– 4,467	– 15,574	34.
Capital increase . . . . .	—	670,091	34.
Change in minority interests . . . . .	– 1,480,320	—	34.
<b>Cash flow from financing activities . . . . .</b>	<b>– 45,660</b>	<b>2,883,052</b>	43.
<b>Change in cash and cash equivalents . . . . .</b>	<b>– 114,564</b>	<b>489,249</b>	43.
Change in cash and cash equivalents due to the scope of consolidation . . . . .	– 40	– 14,286	
Change in cash and cash equivalents due to exchange rates . . . . .	576	– 186	
<b>Net changes in cash and cash equivalents . . . . .</b>	<b>– 114,028</b>	<b>474,777</b>	32.
<b>Balance at the beginning of the period . . . . .</b>	<b>474,777</b>	<b>0</b>	
<b>Balance at the end of the period . . . . .</b>	<b>360,749</b>	<b>474,777</b>	

<sup>4</sup> The previous year's figures are provided on the basis of the final purchase price allocation. This has therefore resulted in deviations to the figures published in the Consolidated Financial Statements as of December 31, 2017 which were reported on the basis of the preliminary purchase price allocation. See also note 8 in the notes to the Consolidated Financial Statements for further explanations of the effects between the final and preliminary purchase price allocation.

## Consolidated Statement of Changes in Shareholders' Equity

Consolidated statement of changes in equity in € k 2018	Subscribed capital	Capital reserve	Retained earnings including net income	Provision for currency conversion	Reserve FVOCI	Equity attributable to shareholders of the parent	Shares relating to non-controlling shareholders	Consolidated equity
<b>Balance as of December 31, 2018 . .</b>	<b>25</b>	<b>152,677</b>	<b>- 592,137</b>	<b>- 50,765</b>	<b>9</b>	<b>- 490,191</b>	<b>120,427</b>	<b>- 369,764</b>
Dividend distributions . . . . .			- 2,371			- 2,371	- 3,530	- 5,901
Change in minority interests . . . .			- 23,336			- 23,336	- 8,350	- 31,686
Changes due to the financial liability from the DPLTA . . . . .		- 517,389				- 517,389	- 1,069,127	- 1,586,516
Changes in the scope of consolidation . . . . .			- 303			- 303	84,087	83,784
Other income . . . . .			856	- 64,168	34	- 63,278	- 893	- 64,171
Net income . . . . .			- 286,809			- 286,809	- 10,075	- 296,884
<b>Balance as of January 1, 2018 . . .</b>	<b>25</b>	<b>670,066</b>	<b>- 280,174</b>	<b>13,403</b>	<b>- 25</b>	<b>403,295</b>	<b>1,128,315</b>	<b>1,531,610</b>
Adjustments per IFRS 9/IFRS 15 . . .			- 1,123		- 25	- 1,148	- 717	- 1,865
<b>Balance as of January 1, 2018 . . .</b>	<b>25</b>	<b>670,066</b>	<b>- 279,051</b>	<b>13,403</b>	<b>—</b>	<b>404,443</b>	<b>1,129,032</b>	<b>1,533,475</b>
<b>Balance as of December 31, 2017<sup>5</sup> .</b>	<b>25</b>	<b>670,066</b>	<b>- 279,051</b>	<b>13,403</b>	<b>—</b>	<b>404,443</b>	<b>1,129,032</b>	<b>1,533,475</b>
Dividend distributions . . . . .						—	- 15,573	- 15,573
Capital increase . . . . .		670,066				670,066		670,066
Changes in the scope of consolidation . . . . .						—	1,192,770	1,192,770
Other income . . . . .			667	13,403		14,070	6,544	20,614
Net income . . . . .			- 279,718			- 279,718	- 54,709	- 334,427
<b>Balance as of April 18, 2017 . . . .</b>	<b>25</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>25</b>	<b>—</b>	<b>25</b>

<sup>5</sup> The previous year's figures are provided on the basis of the final purchase price allocation. This has therefore resulted in deviations to the figures published in the Consolidated Financial Statements as of December 31, 2017 which were reported on the basis of the preliminary purchase price allocation. See also note 8 in the notes to the Consolidated Financial Statements for further explanations of the effects between the final and preliminary purchase price allocation.

### General Information

#### 1. Corporate information

Nidda German Topco GmbH (formerly Blitz 17-89 GmbH) as the parent company of the Nidda Group (herein-after referred to as “Nidda Group” or “Group”), with business address, c/o STADA Arzneimittel AG, Stadastrasse 2-18, 61118 Bad Vilbel, is a Germany-based company. The operating activities comprise the management of its own assets as well as the acquisition, sale, holding and management of investments in other companies which are active in the healthcare market both in Germany and abroad.

The Consolidated Financial Statements of Nidda German Topco GmbH for financial year 2018 were approved for publication by the Management Board on March 13, 2019.

#### 2. Basis of preparation of the financial statements

The Consolidated Financial Statements prepared for Nidda German Topco GmbH as parent company as of December 31, 2018, were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC), as applicable in the European Union (EU), as well as in accordance with the supplementary provisions pursuant to Section 315a (1) of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. Since Nidda German Topco GmbH was entered in the commercial register on April 18, 2017, the financial year refers to the comparison period from April 18, 2017 to December 31, 2017. The individual financial statements of the companies included in the scope of consolidation are prepared as of the same date as the Consolidated Financial Statements.

The structure of the consolidated income statement follows the cost-of-sales method, according to which expenses incurred in generating sales are divided into functional areas. In the statement of comprehensive income, use was made of the option to present this separately from the consolidated income statement. The balance sheet classification distinguishes between non-current and current assets and liabilities, some of which are presented in detail in the notes according to their current or non-current distinction.

The Consolidated Financial Statements are prepared in euro. Unless otherwise indicated, figures in the notes are shown in euro thousands (€ k). Rounding is thus necessary, although this of course is not significant in its nature.

#### 3. Consequences of new or amended standards and interpretations

In financial year 2018, Nidda observed and, if relevant, applied the pronouncements and amendments to pronouncements published by the IASB and adopted by the EU which were first applicable as of January 1, 2018. The following changes had effects on the presentation of Nidda's net assets, financial position and results of operations and cash flow:

In July 2014, IASB published the standard IFRS 9 “Financial Instruments”. The standard replaces IAS 39 and introduces new rules for the classification, recognition and valuation of financial instruments. Furthermore, IFRS 9 also includes guidelines on the accounting of hedging transactions. IFRS 9 is to be applied for financial years beginning on or after January 1, 2018.

Nidda applied the new standard for the first time as of January 1, 2018, pursuant to the transitional regulations of IFRS 9, an adjustment of the previous year's figures is waived. Accordingly, the cumulative effect from initial application of IFRS 9 as of January 1, 2018 was recognized in equity with no effect on profit or loss.

IFRS 9 introduces a new model for classifying financial assets. They are classified according to their contractual cash flow properties and business model within the context of which they are held. Financial instruments in the category “measured at amortized cost” (AC) are classified into the new category “fair value through other comprehensive income” (FVOCI) or “fair value through profit or loss” (FVPL) in the result.



## Notes (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

For the classification of financial assets and financial liabilities, initial application of IFRS 9 has had the following impacts:

		IAS 39		Remeasurement		IFRS 9	
in k €	Category	Carrying amount as of Dec. 31, 2017	Reclassification	ECL	Other	Carrying amount as of Jan. 1, 2018	Category
<b>Financial assets</b>							
Cash and cash equivalents . . . . .	LaR	474,777	—	—	—	474,777	AC
Trade accounts receivable . . . . .	LaR	520,441	– 14,140	– 2,655	—	503,646	AC
to: Financial assets (FVOCI) . . . . .		—	14,140		– 50	14,090	FVOCI
Derivative financial assets with a hedging relationship . . . . .	n/a	678	—	—	—	678	n/a
Derivative financial assets without a hedging relationship . . . . .	FAHfT	—	—	—	—	—	FVPL
Other financial assets . . . . .	LaR	10,217	—	– 2	—	10,215	AC
<b>Non-financial assets</b>							
Deferred tax assets . . . . .	—	27,571			812	28,383	—
<b>Total assets</b> . . . . .		<b>1,033,684</b>	<b>—</b>	<b>– 2,657</b>	<b>762</b>	<b>1,031,789</b>	
<b>Financial liabilities</b>							
Trade accounts payable . . . . .	FLAC	341,624	—	—	—	341,624	AC
Amounts due to banks . . . . .	FLAC	442,499	—	—	—	442,499	AC
Promissory note loans . . . . .	FLAC	535,743	—	—	—	535,743	AC
Bonds . . . . .	FLAC	1,716,443	—	—	—	1,716,443	AC
Financial liabilities to shareholders . .	FLAC	1,002,666	—	—	—	1,002,666	AC
Finance lease liabilities . . . . .	n/a	3,419	—	—	—	3,419	n/a
Derivative financial liabilities with a hedging relationship . . . . .	n/a	1,244	—	—	—	1,244	n/a
Derivative financial liabilities without a hedging relationship . . . . .	FLHfT	450	—	—	—	450	FVPL
Other financial liabilities . . . . .	FLAC	214,472	—	—	—	214,472	AC
<b>Non-financial liabilities</b>							
Deferred tax liabilities . . . . .	—	1,018,854	—	—	416	1,019,270	—
<b>Total liabilities</b> . . . . .		<b>5,273,938</b>	<b>—</b>	<b>—</b>	<b>416</b>	<b>5,273,354</b>	

In accordance with IFRS 9, a financial asset is measured at fair value through other comprehensive income if the underlying business model consists of holding assets in order to collect contractual cash flow and sell financial assets (business model condition). In addition, a cash flow condition must be met. This is the case if the contractual technical characteristics of the financial asset only provide for interest payments and repayments on the outstanding capital amount at defined points in time.

The new regulations for the classification of financial assets lead to changes for the receivables that can be factored in terms of their measurement and presentation as a result of this business model. Financial assets that are still included in trade accounts receivable are now no longer measured at amortized cost but through other comprehensive income at fair value. Changes in the fair value of these receivables will therefore in future be recognized directly in equity in the FVOCI reserve.

Financial assets that are measured at fair value through other comprehensive income are therefore generally subject to the same impairment model as financial assets valued at amortized cost. Equity instruments and derivatives must generally be measured at fair value through profit or loss pursuant to IFRS 9.

## Notes (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

In accordance with IFRS 9, equity instruments in general and derivatives are always measured at fair value through profit or loss. For equity instruments, IFRS 9 offers the choice to record changes in fair value under other comprehensive income. Nidda has not made use of this option to date.

Due to the new regulations on impairment, expected losses will in future be recognized as expenses earlier in accordance with IFRS 9. While the incurred losses model was essential to create a risk provision pursuant to IAS 39, this is based on the expected credit losses model pursuant to IFRS 9. In this context, Nidda applied the simplified approach for trade accounts receivable. The general approach is normally applied for other financial assets. Impairments increased by €2.7 million as a result of the first-time application of the impairment regulations pursuant to IFRS 9 as of January 1, 2018. Reconciling the risk provision pursuant to IAS 39 to the expected credit losses (ECL) pursuant to IFRS 9 is shown below:

in k €	Risk provision under IAS 39 as of Dec. 31, 2017	Remeasurement	ECL under IFRS 9 as of Jan. 1, 2018
Valuation allowance for trade accounts receivable (AC) . . . . .	145,828	2,655	148,483
Valuation allowance for other financial assets (AC) . . . . .	11,414	2	11,416
<b>Total valuation allowances . . . . .</b>	<b>157,242</b>	<b>2,657</b>	<b>159,899</b>

Country-specific loss probabilities are applied to determine expected credit losses under IFRS 9.

The changes made in accordance with IFRS 9 resulted in adjustments as of January 1, 2018 to the FVOCI reserve and to the profit carried forward (not taking into account the amounts for shares relating to non-controlling shareholders), which are described below:

in k €	FVOCI Reserve
<b>As of Dec. 31, 2017 . . . . .</b>	<b>—</b>
Financial assets recognized through other comprehensive income (FVOCI) . . . . .	– 33
Deferred taxes . . . . .	8
<b>As of Jan. 1, 2018, per IFRS 9 . . . . .</b>	<b>– 25</b>

in k €	Profit brought forward
<b>As of Dec. 31, 2017 . . . . .</b>	<b>– 279.051</b>
Recognition ECL per IFRS 9 for financial assets (AC) . . . . .	– 1.648
Deferred taxes . . . . .	233
<b>As of Jan. 1, 2018, per IFRS 9 . . . . .</b>	<b>– 280.466</b>

In May 2014, the IASB published the new standard IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 governs revenue recognition for contracts with customers in a 5-step model and in particular replaces the existing standards IAS 11 “Construction Contracts” and IAS 18 “Revenue”. IFRS 15 is to be applied for financial years beginning on or after January 1, 2018.

Nidda applied the new standard for the first time as of January 1, 2018. In this regard, Nidda made use of its right to choose the simplified initial application. Accordingly, the contracts that were not fully completed as of January 1, 2018, are accounted for as if the new standard IFRS 15 was already applied when these contracts began so that the cumulative effect from the change is recognized directly in equity. There is no adjustment of the comparable figures from the prior-year period.

An increasing accumulative effect in the amount of €0.3 million was recognized in retained earnings including net income from the first-time application of IFRS 15 as of January 1, 2018. The effect resulted primarily from the to be accounted contractual assets which in future are to be shown within the scope of return regulations and the deferred taxes to be established as a result.

## Notes (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

Furthermore, down-payments received led to reclassifications from trade accounts payable to contractual liabilities in the amount of €0.6 million. The new standard on revenue recognition thus had little impact on sales accounting, as sales are largely realized in the Consolidated Financial Statements as a result of routine transactions. There are no agreements in the Group which regulate multiple services within one contract or within several contracts (multi-element arrangements). There were no changes in the accounting of licensing agreements, which amounted to less than 2% of the total sales revenue in financial year 2017. All license agreements of STADA are either bound to the achieved sales of the licensee or further activities are necessary on the part of STADA that would allow the use of the right by the licensee. If this were not the case for such license agreements, the result, due to the new IFRS 15 standard, future sales would be realized in the amount of the entire license fee with the granting of a license and therefore no longer, as they are presently, divided over the term of the license.

The effects on STADA's consolidated balance sheet as a result of the first-time application of the new IFRS 9 and IFRS 15 standards as at January 1, 2018 are shown below:

Consolidated balance sheet in € k	Dec. 31, 2017 (adjusted)	Adjustments per IFRS 9	Adjustments per IFRS 15	Jan. 1, 2018 (adjusted)
<b>Assets</b>				
<b>Non-current assets</b> . . . . .	<b>5,427,342</b>	<b>812</b>	<b>—</b>	<b>5,428,154</b>
Intangible assets . . . . .	4,923,190			4,923,190
Property, plant and equipment . . . . .	428,851			428,851
Financial assets . . . . .	1,978			1,978
Investments measured at equity . . . . .	43,335			43,335
Other financial assets . . . . .	1,087			1,087
Other assets . . . . .	1,330			1,330
Deferred tax assets . . . . .	27,571	812		28,383
<b>Current assets</b> . . . . .	<b>1,649,344</b>	<b>– 2,707</b>	<b>622</b>	<b>1,647,259</b>
Inventories . . . . .	585,105			585,105
Trade accounts receivable . . . . .	520,441	– 2,705		517,736
Return assets . . . . .	—		622	622
Income tax receivables . . . . .	22,062			22,062
Other financial assets . . . . .	9,809	– 2		9,807
Other assets . . . . .	35,323			35,323
Cash and cash equivalents . . . . .	474,777			474,777
Non-current assets and disposal groups held for sale	1,827			1,827
<b>Total assets</b> . . . . .	<b>7,076,686</b>	<b>– 1,895</b>	<b>622</b>	<b>7,075,413</b>

## Notes (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

Equity and liabilities	Dec. 31, 2017 (adjusted)	Adjustments per IFRS 9	Adjustments per IFRS 15	Jan. 1, 2018 (adjusted)
<b>Equity</b> . . . . .	<b>1,533,475</b>	<b>– 2,311</b>	<b>446</b>	<b>1,531,610</b>
Share capital . . . . .	25			25
Capital reserve . . . . .	670,066			670,066
Retained earnings including net income . . . . .	– 279,051	– 1,415	292	– 280,174
Other reserves . . . . .	13,403	– 25		13,378
<b>Equity attributable to shareholders of the parent company</b> . . . . .	<b>404,443</b>	<b>– 1,440</b>	<b>292</b>	<b>403,295</b>
Shares held by non-controlling shareholders . . . . .	1,129,032	– 871	154	1,128,315
<b>Non-current borrowings</b> . . . . .	<b>3,463,889</b>	<b>416</b>	<b>176</b>	<b>3,464,481</b>
Pension provisions . . . . .	35,293			35,293
Financial liabilities . . . . .	2,404,316			2,404,316
Other financial liabilities . . . . .	4,476			4,476
Other liabilities . . . . .	950			950
Deferred tax liabilities . . . . .	1,018,854	416	176	1,019,446
<b>Current borrowings</b> . . . . .	<b>2,079,322</b>	<b>—</b>	<b>—</b>	<b>2,079,322</b>
Other provisions . . . . .	23,507			23,507
Financial liabilities . . . . .	1,293,035			1,293,035
Trade accounts payable . . . . .	341,623		– 563	341,060
Contract liabilities . . . . .	—		563	563
Income tax liabilities . . . . .	78,592			78,592
Other financial liabilities . . . . .	215,109			215,109
Other liabilities . . . . .	127,456			127,456
Non-current liabilities and disposal groups held for sale . . . . .	—			—
<b>Total equity and liabilities</b> . . . . .	<b>7,076,686</b>	<b>– 1,895</b>	<b>622</b>	<b>7,075,413</b>

#### The following IFRS standards, which are not yet applicable, have been published by the IASB:

In January 2016, the IASB published the new IFRS 16 “Leases” standard, which determines the recognition of contractual rights (assets) and obligations (financial liabilities) associated with leases in the balance sheet for lessees. Lessees must therefore no longer classify leases as finance leases or operating leases. IFRS 16 is to be applied for financial years beginning on or after January 1, 2019. Earlier application is permitted. Nidda will apply the new standard for the first time from January 1, 2019 and thereby likely modified retroactively, i.e. an adjustment of the prior-year figures will be waived. In this context, the rights of use will likely be equated with lease liabilities at the time of the change.

An examination of the impact of the application of IFRS 16 on the Consolidated Financial Statements has not yet been fully completed. As a result of the accounting of assets and liabilities in the lessee’s balance sheet, as required by IFRS 16, an increase in the balance sheet total is expected at the point of initial application. In accordance with the currently existing leasing agreements and the currently available investigation results, an accounting of use of rights in the amount of approximately €40 million as well as recognition of leasing obligations in the total amount of €40 million is expected. Instead of leasing expenses, as a result of amendments to IFRS 16, future depreciation and amortization and interest expenses will be recorded in the income statement—with a corresponding positive impact on the EBITDA. Nidda, pursuant to the current status of the investigation, assumes that the depreciation of the currently existing leasing agreements will in future amount to approximately €40 million. In addition, Nidda expects future interest expenses in the amount of approximately €10 million. In accordance with the previous requirements of IAS 17 “Leases”, these expenses would have been fully recognized in operating profit as a leasing expense and as a reduction of EBITDA. The changeover effect relates for the most part to leased real estate, company vehicles as well as office and business equipment.

## Notes (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

Furthermore, in May 2017, IFRIC 23 “Uncertainty over Income Tax Treatments” was issued by the IASB, through which a clarification of the requirements of the approach and measurement of uncertain earnings positions arose. According to this, a company within the scope of the assessment of the uncertainty must estimate how probable the acceptance of the tax treatment of business transactions in the respective tax jurisdictions is. The interpretation is to be applied for financial years which begin on or after January 1, 2019, whereby earlier application is permitted. Nidda currently finds itself in the evaluation on the impact of IFRIC 23 on the Consolidated Financial Statements of the Company.

From today’s perspective, no or no significant effects on the Consolidated Financial Statements are expected from the future application of the further standards and interpretations not yet applied.

### 4. Changes in accounting policies

There were no changes to accounting policies with significant consequences for the presentation of net assets, financial position and results of operations or cash flow in financial year 2018.

### 5. Scope of consolidation

All significant subsidiaries, joint ventures and associates are included in the Consolidated Financial Statements. Subsidiaries are companies that are directly or indirectly controlled by Nidda German Topco GmbH and are therefore fully consolidated. Control exists if Nidda German Topco GmbH or its subsidiaries are in control of an investee, are exposed to variable backflows and, due to control over existing rights, are able to substantially influence the investee’s variable backflows. Control is usually substantiated by a share of voting rights of more than 50%.

Joint arrangements are characterized by joint control by two or more parties and should be classified as either joint operations or as joint ventures. In joint operations, the parties that exercise joint control possess the rights to assets and liabilities included in the agreement. In joint ventures, however, the parties involved possess rights to the company’s net assets. Joint ventures are to be included in the Consolidated Financial Statements using the equity method.

Associates are companies over which Nidda German Topco GmbH can have significant direct or indirect influence and are not subsidiaries or joint ventures. They are included in the Consolidated Financial Statements using the equity method.

Subsidiaries, joint ventures and associates whose influence, both individually and as a whole, on the net assets, financial position and results of operations of the Nidda Group is insignificant, are not consolidated or accounted for using the equity method. Investments in these companies are accounted for at amortized cost under financial assets. Accumulated, the sales and balance sheet total of these companies make up about 1% of total Group sales and/or the balance sheet total.

Changes in the scope of consolidation resulted regarding the number of subsidiaries, joint ventures and associates included in financial year 2018 and are as follows:

<u>Number of companies in the scope of consolidation</u>	<u>Germany</u>	<u>Outside</u>	<u>Total</u>
<b>Dec. 31, 2017</b> . . . . .	<b>16</b>	<b>74</b>	<b>90</b>
Additions . . . . .	1	1	2
Disposals . . . . .	1	4	5
<b>Dec. 31, 2018</b> . . . . .	<b>16</b>	<b>71</b>	<b>87</b>

In the reporting year, the Russian subsidiary ZAO Makiz-Pharma was merged with the Russian subsidiary OOO Hemofarm on May 24, 2018 under the continued company name OOO Hemofarm.

In addition, the Hungarian company STADA Hungary LLC was founded on March 26, 2018. Since September 30, 2018, the company has been consolidated as a subsidiary.

Since September 30, 2018, STADA has consolidated BIOCEUTICALS Arzneimittel AG, previously included as an associate, as a subsidiary after successfully acquiring additional shares. The subsidiary of



## Notes (Continued)

### 5. Scope of consolidation (Continued)

BIOCEUTICALS Arzneimittel AG, NorBiTec GmbH has also been treated as a subsidiary in the Consolidated Financial Statements since September 30, 2018.

On December 29, 2018, the business combination of the two Russian subsidiaries OOO STADA Marketing and ZAO Skopinpharm into the Russian subsidiary OOO Hemofarm took place under the continuation of the company name OOO Hemofarm.

In addition, the two subsidiaries Socialites Retail Germany GmbH and Socialites Nederlands B.V. were de-consolidated as of December 31, 2018.

In the Consolidated Financial Statements of the Nidda Group, 83 companies were consolidated as subsidiaries and four companies as associates as of the reporting date on December 31, 2018.

As in the previous year, the two French companies Pharm Ortho Pedic SAS and AELIA SAS as well as the Russian Dialogfarma LLC were recognized as associates in accordance with the equity method in the Consolidated Financial Statements.

For the former Vietnamese subsidiary STADA Vietnam J.V., a contract was signed in the last quarter of 2017 for the sale of the shares held by in the company as of December 31, 2019. This was associated with the loss of control in this company. The company has since been consolidated as an associate in the Consolidated Financial Statements.

The following condensed financial information is given for these four associates:

in € million	2018	2017
Share of result from continuing operations . . . . .	1.9	- 0.5
Share of result from discontinued operations . . . . .	—	—
Share of other comprehensive income . . . . .	—	—
<b>Share of comprehensive income . . . . .</b>	<b>1.9</b>	<b>- 0.5</b>
Status change of BIOCEUTICALS Arzneimittel AG . . . . .	- 16.8	—
Status change of STADA Vietnam J.V. in 2017 . . . . .	—	25.3
<b>Aggregate carrying amount . . . . .</b>	<b>24.6</b>	<b>43.3</b>

Significant non-controlling interests exist in the Nidda Group as of December 31, 2018 in the STADA Arzneimittel AG and, with it, in the STADA Group.

Below, the influence of other shareholders in STADA as of December 31, 2018 is presented:

Name of subsidiary	Headquarters/place of founding	Share in voting rights of non- controlling interests	Result of non- controlling interests in 2018 in € k	Cumulative non-controlling shares as of Dec. 31, 2018 in € k
STADA Arzneimittel AG . . . . .	Bad Vilbel, Germany	93.68%	23,245	120,427

The following information applies for the previous year:

Name of subsidiary	Headquarters/place of founding	Share in voting rights of non- controlling interests	Result of non- controlling interest in 2017 in € k	Cumulative non-controlling shares as of Dec. 31, 2017 in € k
STADA Arzneimittel AG . . .	Bad Vilbel, Germany	34.58%	6,766	1,129,032

## Notes (Continued)

### 5. Scope of consolidation (Continued)

In the following, the combined financial information of STADA as of December 31, 2018 and for financial year 2018 is presented:

in € k	Assets as of Dec. 31, 2018		Liabilities as of Dec. 31, 2018	
	non-current	current	non-current	current
STADA .....	2,113,845	1,446,281	1,102,439	1,277,702

in € k	Sales	Earnings after taxes in 2018		Total earnings in 2018	Dividends to non-controlling interests in 2018
		Attributable to Nidda	Attributable to non-controlling interests		
STADA .....	2,330,824	287,287	23,245	265,915	2,371

The following information on condensed financial information for STADA was compiled for the previous year:

in € k	Assets as of Dec. 31, 2017		Liabilities as of Dec. 31, 2017	
	non-current	current	non-current	current
STADA .....	1,880,574	1,323,952	157,572	2,040,547

in € k	Sales	Earnings after taxes in 2017		Total earnings in 2017	Dividends to non-controlling interests in 2017
		Attributable to Nidda	Attributable to non-controlling interests		
STADA .....	824,901	6,813	6,766	21,945	15,574

In the following, information on the cash flow for STADA for the financial years 2018 and 2017 is presented.

in € k	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities
	2018	2018	2018
STADA .....	320,288	– 300,284	79,726

in € k	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities
	2017	2017	2017
STADA .....	206,695	– 31,209	– 187,976

Subsidiaries, joint ventures and associates as well as all non-consolidated and other investments pursuant to the regulations of Section 313 (2) HGB are included in the Consolidated Financial Statements as investments and are listed below.

Direct investments of Nidda German Topco GmbH:

Name of the company, registered office	Share in capital	Form of consolidation
Nidda German Midco GmbH, Bad Vilbel, Germany .....	100%	subsidiary

## Notes (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of Nidda German Topco GmbH:

Name of the company, registered office	Share in capital	Form of consolidation
AELIA SAS, Saint Briec, France . . . . .	20%	associate
ALIUD PHARMA GmbH, Laichingen, Germany . . . . .	100%	subsidiary
AO Nizhpharm, Nizhny Novgorod, Germany . . . . .	100%	subsidiary
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany . . . .	51.34%	subsidiary
Britannia Pharmaceuticals Ltd., Reading, United Kingdom . . . .	100%	subsidiary
Brituswip Ltd., Reading, United Kingdom . . . . .	50%	joint venture/not included
BSMW Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Centrafarm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Centrafarm Nederland B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Centrafarm Services B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Cicum Farma, Unipessoal, LDA, Paco de Arcos, Portugal . . . .	100%	subsidiary
Clonmel Healthcare Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
CNRD 2009 Ireland Ltd., Dublin, Ireland . . . . .	50%	joint venture/not included
Crinos S.p.A., Milan, Italy . . . . .	100%	subsidiary
Crosspharma Ltd., Belfast, United Kingdom . . . . .	100%	subsidiary
Dak Nong Pharmaceutical JSC, Dak Nong, Vietnam . . . . .	43%	investment/not consolidated
EG Labo—Laboratoires Eurogenerics SAS, Boulogne-Billancourt, France . . . . .	100%	subsidiary
EG S.p.A., Milan, Italy . . . . .	100%	subsidiary
Fresh Vape Electronic Cigarettes Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Ltd., Huddersfield, United Kingdom . .	100%	subsidiary
Healthypharm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia . . . . .	100%	subsidiary
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina	91.50%	subsidiary
Hemofarm Komerc d.o.o., Skopje, Macedonia <sup>6</sup> . . . . .	99.18%	subsidiary/not included
Hemofarm S.à R.L., Constantine, Algeria . . . . .	40%	investment/not consolidated
Hemomont d.o.o., Podgorica, Montenegro . . . . .	71.02%	subsidiary
Hemopharm GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
Internis Pharmaceuticals Ltd., Huddersfield, United Kingdom .	100%	subsidiary
Jinan Pharmaceuticals Co., Jinan, China . . . . .	35.50%	investment/not consolidated
Laboratorio STADA, S.L., Barcelona, Spain . . . . .	100%	subsidiary
Laboratorio Vannier S.A., Buenos Aires, Argentina . . . . .	100%	subsidiary
LAS Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
LCM Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Lowry Solutions Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany . . . . .	100%	subsidiary
Natures Aid Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Nidda Beteiligungs- und verwaltungsgesellschaft GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
Nidda BondCo GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
Nidda Healthcare GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
Nidda Healthcare Holding GmbH, Bad Vilbel, Germany . . . .	100%	subsidiary
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan . . . . .	100%	subsidiary
NorBiTec GmbH, Uetersen, Germany . . . . .	66.67%	subsidiary

<sup>6</sup> In liquidation.

## Notes (Continued)

### 5. Scope of consolidation (Continued)

Name of the company, registered office	Share in capital	Form of consolidation
OOO Aqualor, Moscow, Russia . . . . .	100%	subsidiary
OOO Dialogfarma, Moscow, Russia . . . . .	50%	associate
OOO Hemofarm, Obninsk, Russia . . . . .	100%	subsidiary
Pegach AG, Egerkingen, Switzerland . . . . .	100%	subsidiary
Pharm Ortho Pedic SAS, Trélazé, France . . . . .	30%	associate
Phu Yen Export Import Pharmaceutical JSC, Phu Yen, Vietnam . . . . .	20%	investment/not consolidated
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam . . . . .	72%	subsidiary
Quang Tri Pharmaceutical JSC, Quang Tri, Vietnam . . . . .	49%	investment/not consolidated
Quatropharma Holding B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium . . . . .	100%	subsidiary
SCIOTEC Diagnostics Technologies GmbH, Tulln, Austria . . . . .	100%	subsidiary
Slam Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites E-Commerce Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites Nederlands B.V., Beuningen, Netherlands . . . . .	100%	subsidiary/not included
Socialites Retail Germany GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary/not included
Socialites Retail Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Spirig HealthCare AG, Egerkingen, Switzerland . . . . .	100%	subsidiary
STADA (Shanghai) Company Management Consulting Co. Ltd., Shanghai, China . . . . .	100%	subsidiary/not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand . . . . .	100%	subsidiary
STADA Aesthetics AG, Egerkingen, Switzerland . . . . .	100%	subsidiary/not included
STADA Aesthetics Deutschland GmbH i.L., Bad Homburg, Germany . . . . .	100%	subsidiary/not included
STADA Aesthetics UK Limited, West Wickham, United Kingdom . . . . .	100%	subsidiary/not included
STADA Arzneimittel AG, Bad Vilbel, Germany . . . . .	93.68%	subsidiary
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria . . . . .	100%	subsidiary
STADA CEE GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA d.o.o., Ljubljana, Slovenia . . . . .	100%	subsidiary
STADA d.o.o., Zagreb, Croatia . . . . .	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt <sup>7</sup> . . . . .	100%	subsidiary/not included
STADA Financial Investments Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
STADA Genéricos, S.L., Barcelona, Spain . . . . .	100%	subsidiary/not included
STADA GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA HEMOFARM S.R.L., Temeswar, Romania . . . . .	100%	subsidiary
STADA Hungary LLC, Budapest, Hungary . . . . .	100%	subsidiary
STADA IT Solutions d.o.o., Belgrade, Serbia . . . . .	100%	subsidiary
STADA LUX S.à R.L., Luxembourg, Luxembourg . . . . .	100%	subsidiary/not included
STADA M&D S.r.L., Bucharest, Romania . . . . .	100%	subsidiary
STADA Medical GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA MENA DWC-LLC, Dubai, United Arab Emirates . . . . .	100%	subsidiary
STADA Nordic ApS, Herlev, Denmark . . . . .	100%	subsidiary
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria . . . . .	100%	subsidiary
STADA PHARMA CZ s.r.o., Prague, Czech Republic . . . . .	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India . . . . .	100%	subsidiary/not included
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia . . . . .	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China . . . . .	100%	subsidiary
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China . . . . .	83.35%	subsidiary
STADA Pharmaceuticals Australia Pty. Ltd., Sydney, Australia . . . . .	100%	subsidiary

<sup>7</sup> In liquidation.

## Notes (Continued)

### 5. Scope of consolidation (Continued)

Name of the company, registered office	Share in capital	Form of consolidation
STADA Philippines, Inc., Manila, Philippines . . . . .	100%	subsidiary
STADA Poland Sp. z o.o., Piaseczno, Poland . . . . .	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
STADA UK Holdings Ltd., Reading, United Kingdom . . . . .	100%	subsidiary
STADA Vietnam J.V. Co., Ltd., Ho-Chi-Minh-City, Vietnam . .	50%	associate
STADA, LDA, Paco de Arcos, Portugal . . . . .	100%	subsidiary/not included
STADAPHARM GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA-Ukraine, Kiev, Ukraine . . . . .	100%	subsidiary
Sundrops Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Thornton & Ross Ireland Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
Thornton & Ross Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania . . . . .	100%	subsidiary
Velefarm A.D., Belgrade, Serbia . . . . .	19.65%	investment/not consolidated
Velexfarm d.o.o., Belgrade, Serbia . . . . .	100%	subsidiary
Vetfarm A.D., Belgrade, Serbia . . . . .	15%	investment/not consolidated
Well Light Investment Services JSC, Ho-Chi-Minh-City, Vietnam . . . . .	100%	subsidiary
Zeroderma Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

The exemption rule in Section 264 (3) HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Hemopharm GmbH, STADA GmbH, STADA Medical GmbH, STADA CEE GmbH, Socialites Retail Germany, STADAPHARM GmbH and Mobilat Produktions GmbH.

### 6. Principles for the consolidation of subsidiaries, joint ventures and associates

According to IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full—irrespective of the amount of the shareholding—as of the acquisition date at their fair values. If the historical costs of the subsidiary acquired exceed the proportionate newly measured net assets of the acquiree, Nidra recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized through profit or loss in the period of the acquisition. In a business combination achieved in stages, it is necessary to carry out a revaluation through profit or loss of the shares previously held at the date control was achieved. The shares of non-controlling interests are disclosed in the amount of their share in net assets of the subsidiary.

The acquisition of additional shares from an existing controlling position in a subsidiary is recognized through other comprehensive income in accordance with IFRS 10, because it is a transaction between the equity investors.

Subsidiaries are generally included in the Consolidated Financial Statements from the acquisition date to the end of control by the parent company. Receivables, liabilities, expenses, income and earnings between the companies included in the Consolidated Financial Statements are eliminated, intercompany value adjustments and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Shares in associates are recognized according to the equity method at acquisition cost on the date when joint control is established (joint ventures) or when significant influence was established (associates) and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the carrying amount of the investment in the associate. A negative difference is recognized in income in the period of the acquisition in the results from associates. Profit and loss from transactions with associates is recognized in the Consolidated Financial Statements only according to the share of minority interests.



## Notes (Continued)

### 6. Principles for the consolidation of subsidiaries, joint ventures and associates (Continued)

If indications arise from the application of IFRS 9 that the carrying amount determined using the equity method might be impaired, an impairment test is carried out and, if applicable, an impairment loss in the amount of the difference between the carrying amount and the recoverable amount is recognized. The recoverable amount is the higher of the fair value less cost to sell and the value in use of the shares in an associate.

### 7. Currency translation

The functional currency of Nidda German Topco GmbH is the euro and represents the reporting currency of the Group.

In the separate financial statements of companies included in the Consolidated Financial Statements, foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transactions. On every balance sheet date, monetary items are translated using the closing rate and non-monetary items are translated using the transaction rate. Resulting currency translation differences are recognized in income as exchange gains or losses.

The translation of the companies with a functional currency other than the euro included in the Consolidated Financial Statements into the Group functional currency is carried out using the closing rate method. Assets and liabilities are generally translated using the closing rate, while individual components of equity are translated using the historical rates at their respective dates of inflow from the Group's perspective. The income and expenses of the income statements are translated—and thereby also the resulting translation of the annual results to be entered in equity—using the average exchange rate of the period.

Currency translation differences arising from the use of different exchange rates are recognized directly in equity in the “Provisions for currency translation”. These provisions are released and recognized in income if Group companies leave the scope of consolidation.

The exchange rate development of currencies important to Nidda to the euro can be seen in the following chart:

Significant currency relations in local currency to €1	Closing rate on Dec. 31 in local currency			Average rate for the reporting period		
	2018	2017	± %	2018	2017	± %
Pound sterling . . . . .	<b>0.89453</b>	0.88723	1%	<b>0.88475</b>	0.88577	0%
Swiss franc . . . . .	<b>1.12690</b>	1.17020	−4%	<b>1.15488</b>	1.13225	2%
Russian ruble . . . . .	<b>79.71530</b>	69.39200	15%	<b>74.05507</b>	67.81505	9%
Serbian dinar . . . . .	<b>118.19460</b>	118.47270	0%	<b>118.27336</b>	120.20925	−2%
Ukrainian hryvnia . . . . .	<b>31.73620</b>	33.73180	−6%	<b>32.11569</b>	30.63083	5%
US dollar . . . . .	<b>1.14500</b>	1.19930	−5%	<b>1.18149</b>	1.16062	2%

### 8. Business combinations

#### STADA takeover in 2017—Finalizing the purchase price allocation

In financial year 2017 with the takeover of the STADA Arzneimittel AG, a significant business combination in accordance with IFRS 3 occurred. The execution of the takeover offer was subject to the condition, among other things, that a minimum acceptance threshold of 63% be reached by the acceptance period on August 16, 2017. On expiration of the acceptance period, a total of 63.77% of the issued STADA shares had been submitted for sale, so that the minimum acceptance threshold was reached. The fulfillment date of the resulting purchase contracts, as a result of which the Nidda Healthcare Holding AG (now operating as a GmbH) received ownership of these shares, was August 22, 2017 which is therefore to be regarded as the date of acquisition.

The further acceptance period for the takeover offer ended upon expiration of September 1, 2017. Upon expiry of the further acceptance period an additional 0.11% of the issued STADA shares were submitted for sale. The concluded contracts of sale were fulfilled on September 15, 2017, whereby Nidda Healthcare

## Notes (Continued)

### 8. Business combinations (Continued)

Holding AG (now operating as GmbH) acquired ownership of these additional STADA shares. Between August 21 and August 23, 2017, Nidda Healthcare Holding AG (now operating as GmbH) acquired further STADA shares via the Frankfurt stock exchange (XETRA®). Given the immediate continuity of the extended acceptance period and the temporal proximity of the acquisitions via the stock exchange to the acquisition date, these share acquisitions were included in the acquisition costs of €2,704.7 million. The transaction costs amounted to €90.0 million.

In terms of the financing of the acquisition of the STADA Arzneimittel AG, the Nidda Group first utilized equity commitments provided by the sponsors, a syndicated loan agreement and two bridge loans. The equity commitments of the sponsors were contributed indirectly via intermediate holding companies to the Nidda German Topco GmbH, partly by way of a capital contribution and additional payments into the capital reserve and partly by way of shareholder loans and similar instruments. The syndicated loan agreement was concluded on August 17, 2017 and grants a secured loan ("Term Loan") callable in several tranches and currencies in a total nominal amount of initially up to €1,700.0 million and a secured revolving credit facility of up to €400.0 million ("RCF"). The bridge loans, also concluded on August 17, 2017, consisted of a secured syndicated loan with a nominal value of €485.0 million ("SSN Bridge") and a partially secured syndicated loan with a nominal value of €340.0 million ("SUN Bridge"). The acquisition of the shares of the STADA Arzneimittel AG tendered as part of the takeover bid was then financed, in addition to the equity commitments, by drawdowns of Term Loan in the amount of €250.0 million, of the RCF in the amount of €37 million and the complete drawdown of both bridge loans.

On September 29, 2017, the bridge loans were refinanced as planned by long-term bonds. For this purpose, Nidda Healthcare Holding GmbH issued a bond with a volume of €735.0 million and an interest rate of 3.5% p.a. ("SSN Bond"). In parallel, Nidda Bondco GmbH issued a bond with a volume of €340.0 million and an interest rate of 5% p.a. ("First SUN Bond"). The net proceeds of the bond issues were used for the full repayment of the bridge loans and for an allocation to a special account for the future acquisition of additional STADA shares, refinancing of existing debt financing of the Group and other purposes permitted under the syndicated loan agreement.

The STADA Group was included in the Consolidated Financial Statements of Nidda German Topco GmbH for the first time as of August 31, 2017. In the Consolidated Financial Statements as of December 31, 2017, the purchase price allocation was considered on a provisional basis. The purchase price allocation was finalized in the interim and was included in the Consolidated Financial Statements as of December 31, 2018 accordingly. The adjustments required as a result of the finalization also had an impact on the data of the financial statements as disclosed in these Consolidated Financial Statements for the comparative period 2017. This explains the deviations of comparative figures in the Consolidated Financial Statements for the 2018 financial year with information contained in the Consolidated Financial Statements prepared as of December 31, 2017.

## Notes (Continued)

### 8. Business combinations (Continued)

The adjustments associated with the finalization of the purchase price allocation as of December 31, 2017 are as follows:

Carrying amount in € million	Dec. 31, 2017 (before adjustment)	Adjustment due to finalization of purchase price allocation	Dec. 31, 2017 (after adjustment)
Intangible assets . . . . .	4,850.5	72.7	4,923.2
Property, plant and equipment . . . . .	332.7	96.1	428.9
Other non-current assets . . . . .	85.5	– 10.2	75.3
Inventories . . . . .	499.0	86.1	585.1
Trade accounts receivable . . . . .	520.4	—	520.4
Other current assets . . . . .	69.0	—	69.0
Cash and cash equivalents . . . . .	474.8	—	474.8
<b>Assets . . . . .</b>	<b><u>6,832.0</u></b>	<b><u>244.7</u></b>	<b><u>7,076.7</u></b>
Share capital and capital reserves . . . . .	670.1	—	670.1
Retained earnings . . . . .	– 300.3	21.2	– 279.1
Other reserves . . . . .	5.4	8.0	13.4
Shares relating to non-controlling shareholders . . . . .	1,022.8	106.3	1,129.0
<b>Equity . . . . .</b>	<b><u>1,398.0</u></b>	<b><u>135.5</u></b>	<b><u>1,533.5</u></b>
Other non-current provisions . . . . .	35.3	—	35.3
Non-current financial liabilities . . . . .	2,404.3	—	2,404.3
Deferred tax liabilities . . . . .	901.8	117.1	1,018.9
Other non-current liabilities . . . . .	5.4	—	5.4
Current financial liabilities . . . . .	1,312.5	– 19.4	1,293.0
Other current provisions . . . . .	23.5	—	23.5
Trade accounts payable . . . . .	341.6	—	341.6
Other financial liabilities . . . . .	215.1	—	215.1
Other current liabilities . . . . .	194.5	11.5	206.0
<b>Liabilities . . . . .</b>	<b><u>5,434.0</u></b>	<b><u>109.2</u></b>	<b><u>5,543.2</u></b>
<b>Total equity and liabilities . . . . .</b>	<b><u>6,832.0</u></b>	<b><u>244.7</u></b>	<b><u>7,076.7</u></b>

The final purchase price allocation from this business combination resulted in goodwill of €532.3 million primarily relating to the acquired sales structures and the associated sales know-how.

#### in € million

Purchase price for 65.28% of the shares of STADA Arzneimittel AG approximately . . . . .	2,704.7
Pro rata fair value of acquired assets and liabilities, approximately . . . . .	<u>2,172.4</u>
<b>Goodwill . . . . .</b>	<b><u>532.3</u></b>

The following fair values were applied at the acquisition date for the assets acquired and liabilities assumed in the context of the business combination. In addition to the amounts of the final purchase price allocation, the table includes a reconciliation to the amounts of the provisional purchase price allocation. The table also shows the effect of the finalization of the purchase price allocation on the pro rata assets

## Notes (Continued)

### 8. Business combinations (Continued)

and liabilities in the amount of €171.3 million, with a corresponding effect (reduction) on goodwill that arose from the provisional purchase price allocation.

Fair values in € million	Final purchase Price allocation	Provisional purchase price allocation	Adjustment between provisional and final purchase price allocation
Intangible assets . . . . .	4,475.1	4,263.3	211.8
Property, plant and equipment . . . . .	442.9	345.8	97.1
Other non-current assets . . . . .	48.5	58.7	– 10.2
Inventories . . . . .	810.2	740.0	70.2
Trade accounts receivable . . . . .	487.8	494.3	– 6.5
Other current assets . . . . .	95.2	95.2	—
Cash and cash equivalents . . . . .	270.2	270.2	—
<b>Assets . . . . .</b>	<b><u>6,629.9</u></b>	<b><u>6,267.5</u></b>	<b><u>362.4</u></b>
Other non-current provisions . . . . .	37.4	36.7	0.7
Deferred tax liabilities . . . . .	1,063.8	961.8	102.0
Other non-current liabilities . . . . .	5.5	5.5	—
Current financial liabilities . . . . .	1,461.6	1,480.2	– 18.6
Other current provisions . . . . .	19.4	19.1	0.3
Trade accounts payable . . . . .	284.8	284.8	—
Other financial liabilities . . . . .	152.6	152.6	—
Other current liabilities . . . . .	206.5	190.5	16.0
<b>Liabilities . . . . .</b>	<b><u>3,231.6</u></b>	<b><u>3,131.2</u></b>	<b><u>100.4</u></b>
Fair value of acquired assets and liabilities . . . . .	3,398.3	3,136.3	262.0
Shares relating to non-controlling shareholders prior to takeover . . . . .	75.0	75.0	—
Fair value of acquired assets and liabilities less shares relating to non-controlling shareholders prior to takeover . . . . .	<u>3,323.3</u>	<u>3,061.3</u>	<u>262.0</u>
<b>Pro rata fair value of the acquired assets and liabilities, approximately . . . . .</b>	<b><u>2,172.4</u></b>	<b><u>2,001.1</u></b>	<b><u>171.3</u></b>

The amount estimated for the non-controlling interest is thus €1,150.9 million as of the acquisition date.

Compared to the preliminary purchase price allocation in the financial year 2017, the final purchase price allocation had a positive effect on earnings before taxes in the amount of €47.2 million. This effect was mainly due to the reduced burden in the cost of sales in the amount of €17.0 million, due to reduced impairments on receivables and intangible assets in the amount of €18.3 million in other operating expenses as well as reduced charges in the recognition of provisions and other liabilities in the amount of €7.9 million.

The cash flow from operating activities, investing activities and financing activities has not changed between the final and the preliminary purchase price allocation.

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used to measure the acquired assets and assumed liabilities.

Sales generated by the STADA Group amounted to around €2,330.8 million in financial year 2018. The result after taxes of this business combination amounted to around €310.5 million in the reporting year.

On October 11, 2018, Nidda Healthcare GmbH published a public de-listing tender offer for all outstanding STADA shares after obtaining the necessary approval from the German Federal Financial Supervisory Authority (BaFin). On November 12, 2018, Nidda Healthcare GmbH announced that it held a total of 93.61% of the issued STADA shares.

## Notes (Continued)

### 8. Business combinations (Continued)

In order to partially finance the shares in STADA Arzneimittel AG tendered in the course of the de-listing offer, Nidda BondCo GmbH issued a bond with a total volume of €250.0 million and an interest rate of 7.25% p.a. on December 4, 2018 and December 13, 2018 ("Second SUN Bond"). In addition, Nidda Healthcare GmbH received an additional loan under the syndicated loan agreement with a total nominal amount of €705 million on November 27, 2018 ("Facility D").

#### BIOCEUTICALS Arzneimittel AG

On September 27, 2018, STADA obtained control of the German company BIOCEUTICALS Arzneimittel AG, Bad Vilbel. The company manufactures the active ingredient Erythropoietin and markets it in particular by issuing sales licenses to STADAPHARM and other third parties. BIOCEUTICALS Arzneimittel AG, which was previously included in the Consolidated Financial Statements as an associate, and its subsidiary NorBiTec GmbH have been included as subsidiaries in consideration of minority interests in the Consolidated Financial Statements, with effect as of September 30, 2018. Control was obtained as a result of acquiring an additional 35.48% of the shares from co-shareholders, whereby STADA, together with the shares it already held, holds 51.34% of the shares in BIOCEUTICALS Arzneimittel AG and is therefore the company's majority shareholder. The purchase price for the acquisition of €35.0 million was fully paid in cash. The acquisition took place on September 27, 2018, following approval of the purchase agreement concluded in August 2018 by the competition authorities.

The final purchase price allocation led to substantial changes in comparison to the reported preliminary purchase price allocation reported as of September 30, 2018. These were attributable primarily to the valuation of immaterial assets. As a consequence, this business combination, which is to be regarded as a bargain purchase, resulted in a negative goodwill of €27.6 million.

#### in € million

Purchase price for 35.49% of the company's shares approximately . . . . .	35.0
Fair value of the shares recognized using the equity method at the time of acquisition . . . . .	15.6
Pro rata fair value of acquired assets and liabilities, approximately . . . . .	<u>78.3</u>
<b>Negative goodwill . . . . .</b>	<b><u>27.6</u></b>

The revaluation of the shares recognized using the equity method up to the time of acquisition led to a loss in the amount of €1.2 million at the time control was obtained, which was reported in other income.

The negative goodwill was recognised in other income. Based on the negative goodwill determined as part of the purchase price allocation, the procedures used to determine the fair values of the identifiable assets and liabilities assumed were reviewed again. In this context, it was ensured that all information available at the time of acquisition was adequately taken into account in the valuation.

The share relating to non-controlling shareholders in the acquired company determined at the time of acquisition as part of the purchase price allocation is €74.2 million. This corresponds to a share of 48.66% in the net assets of BIOCEUTICALS Arzneimittel AG, which is derived from the fair value of the assets and liabilities at the time of acquisition.



## Notes (Continued)

### 8. Business combinations (Continued)

The following fair values were applied at the acquisition date for the assets acquired and liabilities assumed in the context of the business combination:

#### Fair values in € million

Intangible assets . . . . .	87.2
Tangible assets . . . . .	8.3
Deferred tax assets . . . . .	19.0
Inventories . . . . .	18.9
Trade accounts receivable . . . . .	23.4
Income tax receivables . . . . .	5.7
Other current assets . . . . .	1.0
Cash and cash equivalents . . . . .	54.2
<b>Assets . . . . .</b>	<b><u>217.7</u></b>
Deferred tax liabilities . . . . .	25.4
Trade accounts payable . . . . .	3.6
Income tax liabilities . . . . .	2.7
Other liabilities . . . . .	23.6
<b>Liabilities . . . . .</b>	<b><u>55.3</u></b>
Fair value of acquired assets and liabilities . . . . .	162.4
Shares relating to non-controlling shareholders prior to business combination . . . . .	9.9
Fair value of the acquired assets and liabilities minus shares relating to non-controlling shareholders prior to business combination . . . . .	152.5
<b>Pro rata fair value of acquired assets and liabilities, approximately . . . . .</b>	<b><u>78.3</u></b>

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used to measure the acquired assets and assumed liabilities.

The gross amount of trade accounts receivable was €23.4 million which was considered fully recoverable. Trade accounts receivable were recognized at their fair value in the amount of €23.4 million.

In the three months since the time of initial consolidation, sales of the BIOCEUTICALS Group amounted to approximately €4.2 million. Operating profit of this business combination adjusted for effects from the purchase price allocation (approximately €4.4 million) amounted to approximately €0.3 million in the reporting year. Had STADA purchased the BIOCEUTICALS Group on January 1, 2018, sales of approximately €16.8 million and operating profit of approximately €1.2 million adjusted for effects from the purchase price allocation (approximately €17.6 million) would have been achieved in 2018 on a straight-line-basis.

Before the acquisition of the addition shares in BIOCEUTICALS Arzneimittel AG, there were business relationships with STADA through the subsidiary STADAPHARM that previously marketed the active ingredient Erythropoietin through license use.

### 9. Accounting policies

Nidda's Consolidated Financial Statements are based on uniform accounting policies. The basis for these are the accounting requirements which are mandatory for all companies included in the Consolidated Financial Statements and which are described in more detail below insofar as they are significant for the Consolidated Financial Statements or for which option rights are exercised.

## Notes (Continued)

### 9. Accounting policies (Continued)

**Sales** are recognized when the control over delimitable goods passes to the customer, meaning that the customer is able to determine the use of the delimitable goods and, essentially, derive benefit from them. As a requirement for this, there must be an agreement with enforceable rights and obligations and, *inter alia*, a consideration must be highly likely. The creditworthiness of the customer must be considered in this instance. The amount of sales is based on the transaction price to which Nidda is expected to be entitled. Variable considerations that are only considered if it is highly likely that this will not lead to a significant reversal of sales should there no longer be any uncertainty regarding the variable consideration, have an influence on the expected transaction price. The amount of the variable consideration is therefore determined using the expected value method.

Expenses from the creation of provisions for returns are deducted from sales on the basis of estimated amounts. The estimates are based on experience regarding amounts used in the past. The estimated expense from the creation of provisions is determined as a percentage of sales. Discounts to health insurance organizations are also recognized with a reduction on sales based on the respective contract in force.

All license agreements of Nidda are either bound to the realized sales of the licensee or further activities are necessary on the part of STADA that would allow the use of the right by the licensee. The realization of sales is thus distributed over the periods of the contractual term.

Income and expenses from the same transactions are generally recognized in the same period. Expenses related to accruals for future revenue reductions are thus recorded in the period in which the sales are realized.

**Cost of sales** includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. The expense is recognized in the period in which the associated income is realized. In addition, cost of sales also includes costs directly attributable to the commercial goods (e.g. cost of materials and personnel expenses), overhead costs (e.g. scheduled depreciation of production equipment and regulatory drug approvals and licenses) as well as value adjustments of excess or obsolete inventories.

**Development costs** consist of expenses involved initially in the technical implementation of theoretical discoveries in production and production processes and ultimately their commercial implementation.

As a rule, the objective of a development process is to obtain national or multinational regulatory drug approval. Downstream from the development process is an evaluation process at the end of which a decision on the actual execution of a development is made. Within the development process itself, development costs relative to approvals for new drugs result in capitalization as intangible assets if all the following preconditions are met:

- It is technically possible to complete the asset (generally, achieve regulatory approval), enabling it to become available for use or sale.
- The intention and ability, as well as the necessary resources, exist to complete the asset and to use (i.e. usually to market it oneself) or sell it in the future.
- The intangible asset provides the Group with a future economic benefit.
- It is possible to reliably calculate the development costs of the intangible asset.

Development costs not eligible for capitalization as expense are immediately recognized in the periods in which they are incurred. These include expenses for technical and regulatory maintenance of products marketed.

**Goodwill** is not amortized over the period of useful life. Instead, an impairment test is performed at least once per year (impairment-only approach). For this purpose, goodwill is allocated to cash-generating units aggregated into operating segments, where a cash-generating unit corresponds to a market region within the two operating segments of the Group for the purpose of an impairment test of goodwill.

Nidda plans to carry out impairment tests for capitalized goodwill at least once a year. Additional reviews also take place if indications of impairment become apparent. During the impairment test, the carrying

## Notes (Continued)

### 9. Accounting policies (Continued)

amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit including the carrying amount of goodwill to be tested. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% the expected long-term inflation rate is assumed. Significant assumptions made in order to determine the value in use include assumptions regarding sales development, regulatory conditions, investments, the discount rate, currency relations as well as the growth rate. These assumptions are made individually according to the individual situations for every cash-generating unit and are partly based on internally determined assumptions that both reflect past experience and include external market data.

**Other intangible assets** with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of their useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar rights is between three and 30 years. Expenses from scheduled amortization of intangible assets are allocated to the relevant functional costs and generally reported within cost of sales. If on the reporting date, there are indications that these assets are impaired, the recoverable amount of the asset is re-evaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indeterminable useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of these assets are compared with their carrying amounts and if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell was determined using the relief from royalty method. At Nidda, this affects the capitalized umbrella brands STADA, Hemofarm, Pymepharco, and the capitalized umbrella brand Vannier. Impairment tests are carried out for the umbrella brands with indefinite useful lives at the level of the individual company or, for the umbrella brand Hemofarm, at the level of the individual companies that generate sales under the Hemofarm umbrella brand. Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Internal development costs are capitalized in accordance with the criteria in IAS 38. Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs, external services and directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years).

**Property, plant and equipment** is reported at cost less depreciation and any impairment losses plus write-ups. Depreciation shall begin when the asset is available for use and is accordingly in the condition necessary for it to be capable of operating. Subsequent acquisition costs are capitalized. Capitalization requires that a future economic benefit will flow to the company and that the cost of the asset can be reliably measured. Expenses for repairs and maintenance that do not represent significant replacement investments are recognized as expenses in the financial year in which they are incurred.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, eight to 20 years in the case of technical facilities and three to 14 years for other plant and office furniture and equipment. The component approach, according to which every significant component of property, plant and equipment with different useful lives, must be depreciated separately, is not applied due to a lack of relevance. To the

## Notes (Continued)

### 9. Accounting policies (Continued)

extent necessary, impairment losses are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of the intangible asset or property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original historical costs.

**Impairments on other intangible assets and property, plant and equipment** exist when the recoverable amount of an asset is lower than its carrying amount. At each reporting date, Nidda assesses whether indications for impairment are apparent. If this is the case, e.g. if certain defined critical values are exceeded, the asset's recoverable amount is determined. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for the two operating segments with specific parameters. Expenses arising from impairments are recognized under "Other expenses".

For the purpose of impairment tests of other intangible assets and property, plant and equipment, cash-generating units are defined at the level of individual assets within the reportable segments of Branded Products and Generics.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the item "Other income".

**Inventories** include such assets that are held for sale in the ordinary course of business (finished goods), that are in the process of production for such sale (work in progress), and that are consumed in the production process or in the rendering of services (materials and supplies). Inventories are measured at the lower of cost and net realizable value. Historical costs or costs of sales are determined based on weighted average costs. Costs of sales include both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included, but are instead recognized as an expense in the period in which they occur. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Financial assets** can be divided into the following categories in accordance with IFRS 9: Measurement at amortised cost ("AC"), financial assets at fair value through profit or loss ("FVPL") and financial assets at fair value through other comprehensive income ("FVOCI"). Financial assets are accounted for and measured in accordance with IFRS 9. This involves classifying a financial asset on the basis of its contractual cash flow characteristics and business model. Under IFRS 9, a financial asset is carried at cost if the underlying business model is to hold the assets in order to collect contractual cash flows (business model condition). In addition, the cash flow condition must be satisfied. This is the case when the contractual features of the financial asset at specified times only provide for interest and principal payments on the outstanding principal amount.

Receivables eligible for factoring are included in trade accounts receivable. Based on the present business model, they are measured at fair value recorded directly in equity. Changes in the fair value of these receivables are therefore recognized directly in equity in the FVOCI reserve. Financial assets measured at fair value recorded directly in equity are generally subject to the same impairment model as financial assets measured at amortized cost.

In accordance with IFRS 9, expected losses are accounted for on the basis of the expected credit loss model. The simplified approach is applied for trade accounts receivable and return assets. The general approach is generally applied to other financial assets.

**Trade accounts receivable** are measured at amortized cost less impairments using the effective interest rate method. Impairments are made in the form of individual impairments and general individual impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the

## Notes (Continued)

### 9. Accounting policies (Continued)

expected default risk, the expected future cash flows from receivables grouped by debtor are determined. To this end, the maturity structures of net receivables and experience relating to derecognition of receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account.

In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for various Group companies. The required impairment determined reduces the assets' carrying amounts through recognition of an impairment account.

The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

**Financial liabilities** are measured on initial recognition at fair value plus transaction costs directly attributable to the acquisition. For financial liabilities that subsequently continue to be measured at fair value, any transaction costs are recognized as an expense in the period in which they occur. This relates to the accounting of derivative financial instruments with negative market values. These financial liabilities are reported in the "Other financial liabilities" item.

Fair value hedges serve to hedge against the risk of market value fluctuations. The results from the hedging instruments are generally recognized in the items of the income statement in which the fair value change of the hedged underlying transaction is also reflected. Within the scope of fair value hedge accounting, in addition to the fair value change in the derivative, the opposing fair value change in the underlying transaction is recognized in profit or loss, insofar as it is attributable to the hedged risk.

No use is made of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

### 10. Estimates, assumptions and discretion in the application of accounting principles

The presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements is determined by recognition and valuation methods. To a certain extent, Nidda makes estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly re-evaluated, estimates derived in this way may differ from actual circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets evaluated according to IFRS 3 and the consideration transferred plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods are used for this that are primarily based on estimates and assumptions.

Nidda carries out an impairment test for capitalized goodwill at least once a year. The discounted future cash flows of the cash-generating units, aggregated into operating segments, which are based on certain assumptions, are to be determined for this purpose. In this regard, both an allocation from "Corporate Assets" to the carrying amounts of the respective cash-generating units and an allocation from "Corporate Costs" are carried out in the calculation of the respective value in use on the basis of individual appropriate distribution keys. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years based on approved budgets. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% the expected long-term inflation rate is assumed. The budget values for future financial years, which are subject to some uncertainty due to unforeseeable future legal developments and developments in the health care market, as well as the parameters determined in the context of current market information but also as a best possible estimate mean that the assessment of impairment may differ from actual circumstances, and despite good forecasts in the reporting year an impairment requirement may be necessary in subsequent years.



## Notes (Continued)

### 10. Estimates, assumptions and discretion in the application of accounting principles (Continued)

For items of property plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are reported as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

Nidda makes valuation allowances on receivables in order to anticipate losses expected in relation to the insolvency of customers. The maturity structure of the net receivables and past experience in relation to bad debts as well as the customers' creditworthiness are used as the criteria for evaluating the appropriateness of the valuation allowances. This does not, however, exclude the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial position of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in CEE countries.

Nidda operates in various countries and must pay respective income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred taxes in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain items according to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on actual and deferred taxes and thus on the business, financial and earnings situation of the Group in the respective period. Furthermore, increasing importance within the Nidda Group is being allotted to a comprehensive tax transfer-pricing model for the payment of intercompany services. Potential risks of non-recognition of these transfer prices for tax purposes is limited by way of the introduction of corresponding agreement procedures and a comprehensive definition of transfer prices in the form of a Group guideline.

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows, which are already fixed or calculated by means of the current yield curve using so-called "forward rates", are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the reporting date.

The amount of pension obligations from defined benefit plans is calculated using actuarial methods. This procedure is based upon assumptions, among other things, regarding the discount rate, life expectancy and future salary and pension increases. Changes to these assumptions can significantly influence the amount of future pension costs. For German Group companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2018G mortality tables. Outside Germany, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. The discount rate shall be based on long-term rates of return on high quality corporate bonds with fixed interest rates at the reporting date. In countries where there is no liquid market in such corporate bonds, the discount rate is determined on the basis of market yields on government bonds.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. Provisions are created if there is a present external obligation and a probable outflow of resources, i.e. if it is more likely to occur than not. Provisions in relation to pending legal disputes are created based on estimates of the prospects of success of these methods. The determination of provisions for damages is also associated with substantial estimates and can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual

## Notes (Continued)

### 10. Estimates, assumptions and discretion in the application of accounting principles (Continued)

expenses for returns may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g. discounts to health insurance organizations) prescribed by law and due to other regulatory requirements. These are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.

### Notes to the Consolidated Income Statement

#### 11. Sales

Sales are generated exclusively in the STADA (sub)Group and are based primarily on the supply of products and, to a lesser extent, from license revenues. For information on the reporting of sales, please refer to the details included in Accounting Policies.

In financial year 2018, achieved sales were €2,330.8 million (previous year: 824.9 million).

#### 12. Cost of sales

Cost of sales is divided into the following items:

in € k	2018	2017
Material expenses . . . . .	993,033	510,650
Impairment, depreciation and amortization . . . . .	289,157	96,750
Expenses from inventory write-downs . . . . .	35,658	24,996
Remaining cost of sales . . . . .	90,391	31,819
<b>Total . . . . .</b>	<b>1,408,239</b>	<b>664,215</b>

Impairment, depreciation and amortization in the amount of €289.2 million (previous year: €96.7 million) mainly included amortization on intangible assets, the ownership of which represents a necessary condition for the marketing of the products manufactured—in particular drug approvals.

Expenses from inventory write-downs included inventories written down to net realizable value netted with reversals. Reversals amounted to €9.4 million in financial year 2018.

#### 13. Selling expenses

In addition to the costs for sales departments and the sales force, selling expenses also comprise the costs for advertising and marketing activities including samples for doctors. They also include all costs for logistics that occur for completed final products. Discounts in the form of free retail packages, so-called discounts in kind—if possible under the legal regulations in a national market—are not included. The resulting expenses are reported as a part of cost of sales.

In the reporting year, marketing costs of €239.0 million (previous year: €94.8 million) corresponded to a share of 44% in selling expenses (previous year: 47%). In addition, selling expenses included depreciation in the amount of €7.4 million (previous year: €2.5 million).

#### 14. General and administrative expenses

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

In 2018, the general and administrative expenses included depreciation in the amount of €6.1 million (previous year: €2.1 million).

## Notes (Continued)

### 15. Research and development expenses

For information on the composition of research and development expenses, please refer to the details included in Accounting Policies.

The research and development expenses included depreciation in the amount of €2.4 million (previous year: €0.7 million). Development costs for new products in the amount of €20.4 million were capitalized in financial year 2018 (previous year: €7.8 million).

### 16. Other income

Other income is divided into the following items:

in € k	2018	2017
Income from the reversal of impairments on receivables . . . . .	10,636	7,234
Income from the disposal of non-current assets . . . . .	720	2,026
Income from insurance compensations . . . . .	9,874	25
Currency translation income . . . . .	1,090	—
Remaining other income . . . . .	47,504	6,647
<b>Total . . . . .</b>	<b>69,824</b>	<b>15,932</b>

In the financial year, impairments on receivables in the amount of €10.6 million were reversed (previous year: €7.2 million).

In addition, other income in the year under review included net currency translation income of €1.1 million (previous year: net currency translation expenses of €0.9 million), which consisted of currency translation income of €48.9 million (previous year: €9.9 million) and currency translation expenses of €47.8 million (previous year: €10.8 million).

The remaining other income mainly included income from the capital consolidation of BIOCEUTICALS Arzneimittel AG and other income that cannot be directly allocated to the functional costs and which is made up of many immaterial individual items in the Group companies.

### 17. Other expenses

Other expenses are broken down as follows:

in € k	2018	2017
Expenses from valuation allowances on accounts receivable . . . . .	15,523	16,113
Currency translation expenses . . . . .	—	928
Impairment losses on non-current assets excluding goodwill . . . . .	85,645	16,133
Impairment losses on goodwill . . . . .	—	—
Losses from the disposal of non-current assets . . . . .	2,140	6,892
Remaining other expenses . . . . .	37,947	42,336
<b>Total . . . . .</b>	<b>141,255</b>	<b>82,402</b>

Other expenses include impairment losses of €85.6 million (previous year: €16.1million) that only concern impairment losses on current assets excluding goodwill in the reporting year. These impairment losses mainly relate to intangible assets. The impairment losses relate to various pharmaceutical approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

In other expenses, in the reporting year there are expenses from impairments on receivables in the amount of €15.5 million (previous year: €16.1 million), which for the most part relate to impairments due to payment defaults of customers in Russia.

Losses from the disposal of non-current assets in the previous year were essentially due to the following circumstance: For the subsidiary STADA Vietnam J.V., an agreement was concluded on the sale of the shares held by STADA in this company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated

## Notes (Continued)

### 17. Other expenses (Continued)

Financial Statements until the time of the sale. In connection with the loss of control in this company, there was a loss in the total of €5.5 million. This resulted in a positive effect from the reversal of the currency translation reserve in the amount of €1.2 million.

Within remaining other expenses, personnel expenses are recognized in the amount of €3.9 million (previous year: €9.5 million) which in the reporting year resulted from severance payments to former Executive Board members as well as expenses relating to changes in management. The recurring personnel expenses are appropriately allocated to the respective specialist departments. The severance payments mainly related to employees whose regular personnel expenses were included in general and administrative expenses.

In the previous year, consulting services in connection with the 2017 takeover by Bain Capital and Cinven in the amount of €17.1 million, which were considered a special item in the financial year, were included in this item. Other consulting expenses are appropriately allocated to the respective specialist departments.

### 18. Financial result

The **result from investments measured at equity** in financial year 2018 relates to the companies Pharm Ortho Pedic SAS and AELIA SAS as well as Dialogfarma LLC and are accounted for using the equity method. The result from investments measured at equity also contained the share to be attributed to this company up to the time at which BIOCEUTICALS Arzneimittel AG was fully consolidated.

**Investment income** primarily relates to profit distributions from companies not included in the Consolidated Financial Statements.

**Financial income and financial expenses** are composed of the interest result and other financial income and other financial expenses. The interest result developed as follows:

in € k	2018	2017
Interest income . . . . .	17,755	2,270
Interest expense . . . . .	327,243	69,109
<b>Interest result . . . . .</b>	<b>309,488</b>	<b>66,839</b>

thereof from financial instruments of the valuation categories in accordance with IFRS 9:

• loans and receivables (AC) . . . . .	2,079	1,427
• financial assets and liabilities at fair value through OCI (FVOCI) . . . . .	– 1,564	n/a
• financial assets and liabilities at fair value through profit and loss (FVPL) . . . . .	– 7,358	—
• financial liabilities measured at amortized costs (AC) . . . . .	– 305,255	– 63,772

In addition, the interest result in financial year 2018 included a net interest expense from other non-current provisions, which comprises interest income on plan assets as well as interest expenses from pension obligations and other non-current provisions, in the amount of €0.8 million (previous year: €0.3 million).

In financial year 2018, the Group refinanced itself at interest rates of between 0.95% p.a. and 7.25% p.a. (previous year: between 2.9% p.a. and 5.5% p.a.). As of the balance sheet date December 31, 2018, the weighted average interest rate for non-current financial liabilities was approximately 4.31% p.a. (previous year: approximately 4.34% p.a.). As of the balance sheet date December 31, 2018, the weighted average interest rate for current financial liabilities was approximately 1.97% p.a. (December 31, 2017: approximately 1.79% p.a.). The weighted average interest rate for all of the Group's financial liabilities was approximately 4.11% p.a. (2017: 3.47% p.a.).

Borrowing costs capitalized as part of the cost of qualifying assets amounted to €2.6 million (previous year: €0.5 million) in financial year 2018. A capitalization rate of 2.5% (previous year: 1.6%) for intangible assets was taken as a basis.

## Notes (Continued)

### 18. Financial result (Continued)

Other financial income and other financial expenses consist of the following:

in € k	2018	2017
<b>Other financial income</b> . . . . .	—	69
Thereof		
• from the measurement of financial instruments . . . . .	—	69
• from the disposal of financial instruments . . . . .	—	—
<b>Other financial expenses</b> . . . . .	3,229	—
Thereof		
• from the measurement of financial instruments . . . . .	3,229	—
• from the disposal of financial instruments . . . . .	—	—

The result from the measurement of financial instruments in the reporting year was a result of interest rate sway valued at fair value through profit or loss. The measurement of interest rate hedge transactions thereby depends on the development of the money market interest rate.

The result in the previous year was a result of the interest rate/currency swaps valued at fair value through profit or loss that expired as scheduled in 2017.

### 19. Income tax expenses

The item income taxes includes taxes on income and earnings paid or owed in the individual countries as well as deferred tax liabilities. Other taxes that cannot be meaningfully attributed to the sales, administration or research and development functions are included in other expenses.

Actual income taxes recognized in the income statement can be divided according to timing as follows:

in € k	2018	2017
<b>Actual income taxes</b> . . . . .	68,223	13,529
Tax expense in the current period . . . . .	63,583	12,969
Tax expense from previous periods . . . . .	4,790	857
Tax income from previous periods . . . . .	150	297

Deferred taxes recognized in the income statement are made up of the following:

in € k	2018	2017
<b>Deferred taxes</b> . . . . .	-52,438	-51,414
• from temporary differences . . . . .	-48,645	-51,414
• from loss/interest carryforwards . . . . .	-3,793	—
• from tax credits . . . . .	—	—
• from others . . . . .	—	—

No effective income tax rate is reported for 2018, as a tax expense had to be reported despite a pre-tax loss, in particular due to restrictions on the deduction of interest expenses (previous year: 10.2%). The nominal income tax rate for financial year 2018 for Nidda German Topco GmbH in Germany amounted to 28.32% (previous year: 31.9%), including corporate tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% as well as trade income tax with an assessment rate of 357% (previous year: 460%).

No deferred tax liabilities were formed for temporary differences from undistributed earnings from subsidiaries in the amount of €22.4 million (previous year: €17.6 million), because these profits will be reinvested for an indefinite period.

The following overview explains how the effective income tax expense reported in the income statement was derived from the expected income tax expense. The expected income tax expense is calculated by applying the nominal tax rate of a corporation headquartered in Bad Vilbel to earnings before taxes. The



## Notes (Continued)

### 19. Income tax expenses (Continued)

tax effects of the respective tax rates to be applied locally depending on their applicable national and legal forms are reported in a separate reconciliation.

in € k	2018	2017
<b>Earnings before taxes</b> . . . . .	<b>– 281,099</b>	<b>– 372,312</b>
Nominal income tax rate of Nidda German Topco GmbH . . . . .	28.32%	31.9%
<b>Expected income tax expense</b> . . . . .	<b>– 79,607</b>	<b>– 118,767</b>
Deviation in local tax rate . . . . .	779	19,893
Tax effects from loss carryforwards, interest carryforwards and prior-year taxes . . . . .	37,401	59,182
Tax effects from non-deductible expenses and tax-free earnings . . . . .	23,844	551
Tax effects from permanent differences in connection with the DPLTA . . . . .	43,814	—
Tax effect from negative goodwill in accordance with IFRS 3 . . . . .	– 7,829	—
Other tax effects . . . . .	– 2,617	1,256
<b>Income tax income shown on the income statement</b> . . . . .	<b>15,785</b>	<b>– 37,885</b>
Effective income tax rate . . . . .	n/a	10.2%

The tax effects from loss carryforwards/interest carryforwards mainly resulted from unrecognized deferred tax assets on tax losses and interest carried forward due to non-deductible interest expenses (so-called interest barrier rule) in Germany.

The other tax effects resulted mainly from effects of the STADA (sub)Group.

The actual income taxes and deferred taxes recognized in the balance sheet were as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Income tax receivables . . . . .	18,095	22,062
Income tax liabilities . . . . .	88,373	78,592

in € k	Dec. 31, 2018	Dec. 31, 2017
Deferred tax assets . . . . .	34,798	27,571
Deferred tax liabilities . . . . .	971,510	1,018,854
Deferred taxes as of December 31 . . . . .	– 936,712	– 991,283
Difference compared to previous year . . . . .	– 54,571	
thereof		
• recognized in income . . . . .	– 52,442	
• recognized through other comprehensive income . . . . .	– 381	
• acquisitions/disposals/changes in the scope of consolidation . . . . .	5,728	
• reclassifications in accordance with IFRS 5 . . . . .	—	
• reclassifications as a result of the implementation of the new standards IFRS 9 and IFRS 15 . . . . .	– 220	
• currency translation differences . . . . .	– 7,256	

## Notes (Continued)

### 19. Income tax expenses (Continued)

Deferred taxes result from the following balance sheet items and loss carryforwards:

in € k	Dec. 31, 2018 Deferred tax assets	Dec. 31, 2017 Deferred tax assets	Dec. 31, 2018 Deferred tax liabilities	Dec. 31, 2017 Deferred tax liabilities
Intangible assets . . . . .	4,230	3,078	941,683	979,840
Property, plant and equipment . . . . .	1,435	1,764	26,301	27,266
Financial assets . . . . .	454	791	623	1,103
Inventories . . . . .	17,992	14,081	995	20,963
Receivables . . . . .	7,023	8,484	1,535	374
Other assets . . . . .	1,838	2,956	13	41
Other non-current provisions . . . . .	4,856	2,438	—	708
Other provisions . . . . .	3,391	3,337	10,120	3,998
Liabilities . . . . .	13,830	1,736	34,028	1,665
Loss carryforwards . . . . .	23,537	6,010	—	—
<b>Total . . . . .</b>	<b>78,586</b>	<b>44,675</b>	<b>1,015,298</b>	<b>1,035,958</b>
Offsetting . . . . .	-43,788	-17,104	-43,788	-17,104
<b>Deferred taxes as per balance sheet . . . . .</b>	<b>34,798</b>	<b>27,571</b>	<b>971,510</b>	<b>1,018,854</b>

Deferred tax liabilities reported resulted mainly from deferred taxes in the context of business combinations under IFRS 3. The reduction in deferred tax liabilities from intangible assets compared with the previous year was primarily a result of scheduled amortization of intangible assets with purchase price allocations measured in accordance with IFRS 3, as well as from impairments on such assets.

Tax advantages that are expected from the future utilization of tax loss carryforwards are reported under “Tax loss carryforwards”, insofar as their utilization is probable. Tax loss carryforwards capitalized as of the balance sheet date December 31, 2018 amounted to €72.7 million in financial year 2018 (previous year: €25.7 million).

The future usable tax loss carryforwards and similar items are listed in the following chart according to their expiry date:

in € k	Dec. 31, 2018	Dec. 31, 2017
Loss carryforward expiry date within		
• 1 year . . . . .	—	865
• 2 years . . . . .	—	248
• 3 years . . . . .	—	—
• 4 years . . . . .	—	23
• 5 years . . . . .	1,801	5,914
• more than 5 years . . . . .	—	1,168
• unlimited carryforward . . . . .	70,885	17,455

No deferred taxes were recognized for the following tax loss carryforwards and similar items as it is not probable that they will be realized in the foreseeable future:

in € k	Dec. 31, 2018	Dec. 31, 2017
Expiry date for loss carryforwards and similar items within		
• 1 year . . . . .	—	250
• 2 years . . . . .	—	692
• 3 years . . . . .	—	642
• 4 years . . . . .	—	789
• 5 years . . . . .	54	284
• more than 5 years . . . . .	—	10,223
• unlimited carryforward . . . . .	98,335	63,402
Temporary differences . . . . .	—	—

## Notes (Continued)

### 20. Income attributable to non-controlling interests

in € k	Dec. 31, 2018	Dec. 31, 2017
<b>Net income</b> . . . . .	<b>– 296,884</b>	<b>– 334,427</b>
• thereof distributable to shareholders of Nidda German Topco GmbH (net income) . . . . .	– 286,809	– 279,718
• thereof distributable to non-controlling interests . . . . .	– 10,075	– 54,709

Profit attributable to non-controlling interests pertains to the subsidiaries STADA Arzneimittel AG, BIOCEUTICALS Arzneimittel AG and NorBiTec GmbH, Hemofarm Banja Luka, Hemomont, Pymepharco and STADA Pharmaceuticals (Beijing).

### 21. Number of employees and personnel expenses

The average number of employees at Nidda by functional area and functional sub-area was as follows:

	2018	2017
Marketing/Sales . . . . .	3,175	3,106
Logistics . . . . .	583	443
Finance/IT . . . . .	714	750
Production/Quality Assurance . . . . .	4,466	4,656
Procurement/Supply Chain . . . . .	314	343
Product Development . . . . .	570	625
Administration . . . . .	425	963
<b>Entire Group</b> . . . . .	<b><u>10,247</u></b>	<b><u>10,886</u></b>
<b>Personnel expenses (in € million)</b> . . . . .	<b><u>357.4</u></b>	<b><u>129.3</u></b>

The average number of employees in the reporting year decreased by 6% to 10,247 (previous year: 10,886), primarily due to the deconsolidation of STADA Vietnam as of November 30, 2017. As of the balance sheet date, the Group's number of employees increased in 2018 by 2% to 10,416 (previous year: 10,176). This increase was mainly based on the consolidation of the German company NorBiTec GmbH in the course of the majority takeover of BIOCEUTICALS Arzneimittel AG as well as the Hungarian STADA Hungary LLC. In addition, the increase in the number of employees as of the balance sheet date was due to the expansion of the marketing and sales division of the German subsidiary STADAPHARM GmbH and the Spanish subsidiary Laboratorio STADA S.L.

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, in financial year 2018 were €357.4 million (previous year: €129.3 million).

## Notes (Continued)

### 22. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses were incurred on intangible assets and property plant and equipment as follows:

in € k	2018	2017
<b>Depreciation/amortization</b> . . . . .	<b>305,192</b>	<b>102,130</b>
Intangible assets . . . . .	267,657	88,677
Property, plant and equipment . . . . .	37,535	13,453
<b>Impairment losses</b> . . . . .	<b>85,646</b>	<b>16,133</b>
Intangible assets . . . . .	85,599	11,854
thereof		
• Goodwill . . . . .	—	—
Property, plant and equipment . . . . .	47	4,142
thereof		
• land and buildings . . . . .	3	3,116
• plant and machinery . . . . .	22	268
• other fixtures and fittings, tools and equipment . . . . .	6	332
• down payments . . . . .	16	426
Financial assets . . . . .	—	137
thereof		
• investments . . . . .	—	137

While depreciation and amortization are included in expenses of the individual functional areas according to their functional relevance, there is a presentation within other expenses for impairment losses.

The impairment of intangible assets concerns various drug approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

Impairment losses on financial assets recognized in the reporting year relate to a number of items which, individually, were immaterial.

More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

## Notes (Continued)

### Notes to the Consolidated Balance Sheet

#### 23. Intangible assets

Intangible assets developed as follows in financial year 2018:

2018 in € k	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance Payments to suppliers and capitalized development costs for current projects	Total
<b>Cost as of Jan. 1, 2018</b> . . . . .	<b>4,210,413</b>	<b>529,071</b>	<b>274,595</b>	<b>5,014,079</b>
Currency translation . . . . .	– 61,029	—	– 2,532	– 63,561
Changes in the scope of consolidation . . . . .	—	—	—	—
Additions . . . . .	224,308	—	62,472	286,780
Additions from business combinations pursuant to IFRS 3 . . . . .	87,186	—	—	87,186
Disposals . . . . .	6,734	—	2,298	9,032
Reclassifications to non-current assets and disposal groups held for sale . . . . .	—	—	—	—
Transfers . . . . .	25,933	—	– 25,938	– 5
<b>Cost as of Dec. 31, 2018</b> . . . . .	<b>4,480,077</b>	<b>529,071</b>	<b>306,298</b>	<b>5,315,447</b>
<b>Accumulated amortization as of Jan. 1, 2018</b> . . . . .	<b>81,254</b>	<b>—</b>	<b>9,635</b>	<b>90,889</b>
Currency translation . . . . .	– 9,764	—	– 965	– 10,729
Changes in the scope of consolidation . . . . .	—	—	—	—
Amortization . . . . .	267,657	—	—	267,657
Impairments . . . . .	84,106	—	1,493	85,599
Disposals . . . . .	6,577	—	1,698	8,275
Write-ups . . . . .	—	—	—	—
Reclassifications to non-current assets and disposal groups held for sale . . . . .	—	—	—	—
Transfers . . . . .	197	—	– 197	—
<b>Accumulated amortization as of Dec. 31, 2018</b> . . . . .	<b>416,873</b>	<b>—</b>	<b>8,269</b>	<b>425,142</b>
<b>Residual carrying amounts as of Dec. 31, 2018</b> . . . . .	<b>4,063,204</b>	<b>529,071</b>	<b>298,030</b>	<b>4,890,305</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>4,129,159</b>	<b>529,071</b>	<b>264,960</b>	<b>4,923,190</b>

Additions from business combinations in accordance with IFRS 3, which relate to the fair value calculated in the context for the purchase price allocations resulted in the reporting year from BIOCEUTICALS Arzneimittel AG and NorBiTec GmbH.

In the Group, the umbrella brands STADA, Hemofarm, Pymepharco and Laboratorio Vannier are included as recognized trademarks as intangible assets with an indefinite useful life, as it is intended to make continuing use of them. As of December 31, 2018, these umbrella brands have a carrying amount of €51.6 million (STADA), €39.5 million (Hemofarm) and €8.8 million (Pymepharco). In the context of the impairment test as at December 31, 2018, a royalty rate of 1.5% was used for the umbrella brand STADA. The royalty rate for Hemofarm and Pymepharco was 2%. The discount rate was 7.5% (STADA), 13.7% (Hemofarm) and 14.3% (Pymepharco). There was no necessity for impairment in the reporting year.

The impairment test with a license rate of 2% and a discount rate of 17.8% for the umbrella brand Laboratorio Vannier resulted in an impairment charge of €0.2 million for the reporting year. As of December 31, 2018, the umbrella brand was thus completely written off and has a carrying amount of €0.0 million.

The umbrella brand Nizhpharm with a carrying amount of €15.2 million as of December 31, 2018, will be amortized as scheduled over its useful life.



## Notes (Continued)

### 23. Intangible assets (Continued)

Borrowing costs capitalized in 2018 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to €2.6 million (previous year: €0.5 million). In financial year 2018, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 2.5% (previous year: 1.6%).

Development costs of €23.7 million were capitalized in the reporting year (previous year: €8.6 million). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years). Development costs that do not qualify for capitalization are recognized immediately as expense in the period in which they are incurred. In financial year 2018, these development costs amounted to of €72.3 million (previous year: €23.1 million).

Amortization on intangible assets mainly relates to regulatory drug approvals as well as trademarks and is recognized in the income statement primarily under cost of sales. In the reporting year, this related to an amount of €267.7 million (previous year: €88.7 million).

In financial year 2018, impairments on intangible assets were recognized in the total amount of €85.6 million (previous year: €11.9 million). These impairments resulted primarily from the year-end impairment tests. No valuation allowances on goodwill were recorded in the reporting year.

Details on changes in the scope of consolidation can be found in the Note on the scope of consolidation (see Note 5.).

## Notes (Continued)

### 23. Intangible assets (Continued)

Intangible assets developed as follows in financial year 2017:

2017 in € k	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments to suppliers and capitalized development costs for current projects	Total
<b>Cost as of Apr. 18, 2017</b> . . . . .	—	—	—	—
Currency translation . . . . .	25,001	—	904	25,905
Changes in the scope of consolidation . . . . .	– 27,037	– 3,252	—	– 30,289
Additions . . . . .	3,610	—	12,502	16,112
Additions from business combinations pursuant to IFRS 3 . . . . .	4,199,359	532,323	275,739	5,007,421
Disposals . . . . .	1,890	—	785	2,675
Reclassifications to non-current assets and disposal groups held for sale . . . . .	2,395	—	—	2,395
Transfers . . . . .	13,765	—	– 13,765	—
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>4,210,413</b>	<b>529,071</b>	<b>274,595</b>	<b>5,014,079</b>
<b>Accumulated amortization as of Apr. 18, 2017</b> . . . . .	—	—	—	—
Currency translation . . . . .	1,970	—	23	1,993
Changes in the scope of consolidation . . . . .	– 8,281	—	—	– 8,281
Amortization . . . . .	88,677	—	—	88,677
Impairments . . . . .	1,786	—	10,068	11,854
Disposals . . . . .	1,536	—	443	1,979
Write-ups . . . . .	—	—	—	—
Reclassifications to non-current assets and disposal groups held for sale . . . . .	1,375	—	—	1,375
Transfers . . . . .	13	—	– 13	—
<b>Accumulated amortization as of Dec. 31, 2017</b> . . . . .	<b>81,254</b>	<b>—</b>	<b>9,635</b>	<b>90,889</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>4,129,159</b>	<b>529,071</b>	<b>264,960</b>	<b>4,923,190</b>

The following amortization expense is expected for intangible assets in the next five years:

in € k	Expected amortization
2019 . . . . .	111,299
2020 . . . . .	110,884
2021 . . . . .	110,794
2022 . . . . .	112,003
2023 . . . . .	113,987

In the context of the takeover of STADA Arzneimittel AG a goodwill arose in the amount of €532.3 million due to the final purchase price allocation. The finalization of the purchase price allocation therefore led to an adjustment of the goodwill in the amount of €171.3 million in comparison to the amount of €703.6 million determined in the provisional purchase price allocation which was recognized in the Consolidated Financial Statements as of December 31, 2017.<sup>8</sup> The STADA Group is managed as a cash-generating unit in the Nidda Group, for this reason the goodwill impairment test is carried out at this level.

<sup>8</sup> Refer to section 8 in the notes to the Consolidated Financial Statements for a reconciliation of the adjustments between the provisional and final purchase price allocation.

## Notes (Continued)

### 23. Intangible assets (Continued)

As part of the regular impairment test for capitalized goodwill as of September 30, 2018, the expected cash outflow was determined based on the discounted cash flow procedure using the following defined parameters:

Growth in the 2018 update phase in %	1.5%
WACC 2018 in %	11.9%

The discounted cash flow method is used to determine value in use of the cash-generating units, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. Such a detailed planning period reflects the assumptions of short to medium-term market developments. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% the expected long-term inflation rate is assumed. In the previous year, for the period after the three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. The detailed planning period for determining values in use is based on certain assumptions that are based on past experience, complemented by internal developments, and verified based on external market data and analyses. Key assumptions include the development of future selling prices or quantities, costs, the influence of the regulatory market environment, investments, market shares, foreign exchange rates, and growth rates. Significant changes to the aforementioned assumptions would influence the determination of the values in use of the cash-generating units. The discount rates used are determined based on external factors derived from the market and are adjusted for the risks predominant in the cash-generating units in question.

For the regular impairment test as of September 30, 2018 there was a headroom in the low triple-digit million range. Changes to the valuation parameters for the impairment test can influence the value in use of the cash-generating unit. A sensitivity analysis was therefore conducted for the cash-generating unit by using a 1.0 percentage point increase of the discount rate, a 0.5 percentage point reduction of the growth rate, and a 10.0 percentage point reduction of the EBIT. Based on these assumptions, there was a need for impairment in the amount of:

Sensitivity analysis—impact on the need for impairment in € million €	WACC +1.0 percentage points	Growth rates –0.5 percentage points	EBIT –10.0 percentage points
Nidda	–420.7	–40.5	–343.7

The following development in the respective valuation parameter would mean that the value in use of the cash-generating unit would be equal to its carrying amount:

Information in %	WACC	Growth rates	EBIT
Change in the parameter	+0.4	–0.4	–4.3

## Notes (Continued)

### 24. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2018:

2018 in € k	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payments and construction in progress	Total
<b>Cost as of Jan. 1, 2018</b> . . . . .	<b>221,355</b>	<b>131,879</b>	<b>51,988</b>	<b>29,286</b>	<b>434,509</b>
Currency translation . . . . .	- 2,145	- 4,913	- 2,125	- 868	- 10,051
Changes in the scope of consolidation . . . . .	—	—	- 138	—	- 138
Additions . . . . .	3,249	6,893	6,025	36,814	52,981
Additions from business combinations in accordance with IFRS 3 . . . . .	1,432	5,794	936	374	8,536
Disposals . . . . .	619	6,798	6,235	691	14,343
Reclassifications to non-current assets and disposal groups held for sale . . . . .	—	—	—	—	—
Transfers . . . . .	5,766	12,256	4,087	- 22,104	5
<b>Cost as of Dec. 31, 2018</b> . . . . .	<b>229,038</b>	<b>145,111</b>	<b>54,538</b>	<b>42,811</b>	<b>471,499</b>
<b>Accumulated amortization as of</b>					
<b>Jan. 1, 2018</b> . . . . .	<b>1,869</b>	<b>1,854</b>	<b>1,509</b>	<b>426</b>	<b>5,658</b>
Currency translation . . . . .	- 444	- 2,873	- 833	—	- 4,150
Changes in the scope of consolidation . . . . .	—	—	- 47	—	- 47
Amortization . . . . .	7,562	19,236	10,737	—	37,535
Impairments . . . . .	3	22	6	16	47
Disposals . . . . .	610	6,463	5,226	—	12,299
Write-ups . . . . .	—	—	—	—	—
Reclassifications to non-current assets and disposal groups held for sale . . . . .	- 23	339	- 316	—	—
Transfers . . . . .	—	—	—	—	—
<b>Accumulated amortization as of</b>					
<b>Dec. 31, 2018</b> . . . . .	<b>8,357</b>	<b>12,115</b>	<b>5,830</b>	<b>442</b>	<b>26,744</b>
<b>Residual carrying amounts as of</b>					
<b>Dec. 31, 2018</b> . . . . .	<b>220,681</b>	<b>132,995</b>	<b>48,708</b>	<b>42,370</b>	<b>444,754</b>
<b>Residual carrying amounts as of</b>					
<b>Dec. 31, 2017</b> . . . . .	<b>219,486</b>	<b>130,025</b>	<b>50,480</b>	<b>28,860</b>	<b>428,851</b>

Property, plant and equipment included assets from finance leases, primarily relating to cars and trucks, in the amount of €5.3 million, which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since been subjected to scheduled depreciation.

As in the previous year, no borrowing costs for property, plant and equipment were capitalized in financial year 2018.

## Notes (Continued)

### 24. Property, plant and equipment (Continued)

Property, plant and equipment developed as follows in financial year 2017:

2017 in € k	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payments and construction in progress	Total
<b>Cost as of Apr. 18, 2017</b> . . . . .	—	—	—	—	—
Currency translation . . . . .	709	1,049	283	132	2,173
Changes in the scope of consolidation . . .	– 10,319	– 9,733	– 1,017	– 49	– 21,118
Additions . . . . .	808	3,785	3,165	9,676	17,434
Additions from business combinations according to IFRS 3 . . . . .	224,061	126,738	50,695	41,430	442,925
Disposals . . . . .	351	622	3,137	8	4,118
Reclassifications to non-current assets and disposal groups held for sale . . . . .	2,985	—	—	—	2,985
Transfers . . . . .	9,432	10,662	1,999	– 21,895	198
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>221,355</b>	<b>131,879</b>	<b>51,988</b>	<b>29,286</b>	<b>434,509</b>
<b>Accumulated amortization as of Apr. 18, 2017</b> . . . . .	—	—	—	—	—
Currency translation . . . . .	137	355	199	—	691
Changes in the scope of consolidation . . .	– 1,739	– 5,380	– 566	—	– 7,685
Amortization . . . . .	2,609	6,908	3,936	—	13,453
Impairments . . . . .	3,116	268	332	426	4,142
Disposals . . . . .	76	492	2,396	—	2,964
Write-ups . . . . .	—	—	—	—	—
Reclassifications to non-current assets and disposal groups held for sale . . . . .	– 2,179	—	—	—	– 2,179
Transfers . . . . .	1	195	4	—	200
<b>Accumulated amortization as of Dec. 31, 2017</b> . . . . .	<b>1,869</b>	<b>1,854</b>	<b>1,509</b>	<b>426</b>	<b>5,658</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>219,486</b>	<b>130,025</b>	<b>50,480</b>	<b>28,860</b>	<b>428,851</b>



## Notes (Continued)

### 25. Financial assets

Financial assets developed as follows in financial year 2018:

<u>2018 in € k</u>	<u>Shares in associates and other investments</u>	<u>Other financial assets</u>	<u>Total</u>
<b>Cost as of Jan. 1, 2018</b> . . . . .	<b><u>2,191</u></b>	<b><u>—</u></b>	<b><u>2,191</u></b>
Currency translation . . . . .	57	—	57
Changes in the scope of consolidation . . . . .	—	—	—
Additions through business combinations according to IFRS 3 . . . . .	—	—	—
Additions . . . . .	280	—	280
Disposals . . . . .	5	—	5
Reclassifications from non-current assets and disposal groups held for sale	—	—	—
Transfers . . . . .	—	—	—
<b>Cost as of Dec. 31, 2018</b> . . . . .	<b><u>2,523</u></b>	<b><u>—</u></b>	<b><u>2,523</u></b>
<b>Accumulated impairments as of Jan. 1, 2018</b> . . . . .	<b><u>213</u></b>	<b><u>—</u></b>	<b><u>213</u></b>
Currency translation . . . . .	29	—	29
Changes in the scope of consolidation . . . . .	—	—	—
Impairments . . . . .	—	—	—
Disposals . . . . .	—	—	—
Write-ups . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale	—	—	—
Transfers . . . . .	—	—	—
<b>Accumulated impairments as of Dec. 31, 2018</b> . . . . .	<b><u>242</u></b>	<b><u>—</u></b>	<b><u>242</u></b>
<b>Residual carrying amounts as of Dec. 31, 2018</b> . . . . .	<b><u>2,281</u></b>	<b><u>—</u></b>	<b><u>2,281</u></b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b><u>1,978</u></b>	<b><u>—</u></b>	<b><u>1,978</u></b>

Financial assets are the carrying amounts of those shares in non-consolidated investments. There is currently no intention to sell these financial assets.

## Notes (Continued)

### 25. Financial assets (Continued)

Financial assets developed as follows in financial year 2017:

2017 in € k	Shares in associates and other investments	Other financial assets	Total
<b>Cost as of Apr. 18, 2017</b> . . . . .	—	—	—
Currency translation . . . . .	62	—	62
Changes in the scope of consolidation . . . . .	—	—	—
Additions through business combinations according to IFRS 3 . . . . .	2,124	—	2,124
Additions . . . . .	5	—	5
Disposals . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale	—	—	—
Transfers . . . . .	—	—	—
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>2,191</b>	<b>—</b>	<b>2,191</b>
<b>Accumulated impairments as of Apr. 18, 2017</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>
Currency translation . . . . .	74	—	74
Changes in the scope of consolidation . . . . .	—	—	—
Impairments . . . . .	137	—	137
Disposals . . . . .	-2	—	-2
Write-ups . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale	—	—	—
Transfers . . . . .	—	—	—
<b>Accumulated impairments as of Dec. 31, 2017</b> . . . . .	<b>213</b>	<b>—</b>	<b>213</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>1,978</b>	<b>—</b>	<b>1,978</b>

### 26. Investments measured at equity

The disclosure relates to the accounting of shares in the associates STADA Vietnam J.V., as well as Pharm Ortho Pedic SAS, AELIA SAS and Dialogfarma LLC using the equity method.

Due to an additional share acquisition and the associated gain of control, the former associate BIOCEUTICALS Arzneimittel AG has been included in the Consolidated Financial Statements as a subsidiary since September 30, 2018.

For the former Vietnamese subsidiary STADA Vietnam J.V., a contract was signed in the last quarter of financial year 2017 for the sale of the shares held by in the company as of December 31, 2019. This was associated with the loss of control in this company. The company has since then been consolidated as an associate in the Consolidated Financial Statements until the time of the sale.

Investments measured at equity developed as follows in financial year 2018 compared to the previous year:

in € k	2018	2017
<b>As of January 1</b> . . . . .	<b>43,335</b>	<b>—</b>
Business combination in accordance with IFRS 3 . . . . .	—	18,504
Status change of BIOCEUTICALS Arzneimittel AG . . . . .	-16,833	—
Status change of STADA Vietnam J.V. . . . .	—	25,352
Interest rate effects STADA Vietnam J.V. . . . .	3,442	—
Dividend distributions . . . . .	-9,098	—
Result from associates . . . . .	3,722	-521
<b>As of Dec. 31</b> . . . . .	<b>24,568</b>	<b>43,335</b>

The decline in investments measured at equity in financial year 2018 resulted primarily from the change in status of BIOCEUTICALS Arzneimittel AG from associate to subsidiary.

## Notes (Continued)

### 26. Investments measured at equity (Continued)

Interest rate effects exclusively related to STADA Vietnam J.V., as the equity carrying amount of the company STADA Vietnam J.V. corresponds to the contractually agreed selling price for the shares held by STADA for the sale as of December 31, 2019, taking into account a corresponding discounting effect.

Dividend distributions essentially included the dividends paid by STADA Vietnam J.V. for financial year 2018, which represent partial payments in connection with the agreement concluded in the fourth quarter of 2017 to sell the shares in this company held by STADA.

### 27. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Trade accounts receivable from third parties . . . . .	634,721	665,191
Trade accounts receivable from non-consolidated companies . . . . .	1,292	1,078
Valuation allowances vis-à-vis third parties . . . . .	– 132,110	– 145,828
Financial assets (FVOCI) . . . . .	12,108	—
<b>Total . . . . .</b>	<b><u>516,011</u></b>	<b><u>520,441</u></b>

As of December 31, 2018, there were no trade accounts receivable due after one year (previous year: €0.2 million).

Collateral exists for a portion of trade accounts receivable whose value was not impaired in the form of bank or corporate guarantees as well as pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers. These are taken into account in the calculation of the default risk.

The new regulations on the classification of financial assets lead to changes in the measurement and disclosure of factoring-capable receivables on the basis of the present business model. These financial assets, which continue to be included in trade accounts receivable, are no longer measured at amortized cost but at fair value through other comprehensive income. Changes in the fair value of these receivables are therefore recognized directly in equity in the FVOCI reserve. In this context, financial assets measured at fair value through other comprehensive income are generally subject to the same impairment model as financial assets measured at amortized cost.

Overall, valuation allowances on trade accounts receivable developed as follows:

in € k	2018	2017
<b>As of January 1 . . . . .</b>	<b><u>145,828</u></b>	<b><u>—</u></b>
IFRS 9 adjustments . . . . .	2,655	—
<b>As of January 1, 2018 in accordance with IFRS 9 . . . . .</b>	<b><u>148,483</u></b>	<b><u>—</u></b>
Added . . . . .	14,653	16,456
Utilized . . . . .	10,539	—
Reversed . . . . .	9,269	—
Additions from business combinations according to IFRS 3 . . . . .	—	129,060
Changes in the scope of consolidation . . . . .	– 6,802	– 32
Currency translation differences . . . . .	– 4,416	344
<b>As of Dec. 31 . . . . .</b>	<b><u>132,110</u></b>	<b><u>145,828</u></b>

## Notes (Continued)

### 27. Trade accounts receivable (Continued)

Impairment matrix

in € k Trade accounts receivable	Credit default rate	Trade accounts receivable, net	ECL IFRS 9	EWB excluding ECL IFRS 9	Trade accounts receivable, gross
Cluster 1—low risk . . . . .	0%–1.5%	323,575	1,359	32,562	356,137
Cluster 2—medium risk . . . . .	1.6%–3.0%	176,184	2,093	95,681	271,865
Cluster 3—increased risk . . . . .	3.1%–5.0%	6,539	234	180	6,719
Cluster 4—high risk . . . . .	>5.0%	—	—	—	—
<b>Total . . . . .</b>		<b>506,298</b>	<b>3,686</b>	<b>128,423</b>	<b>634,721</b>

For trade accounts receivable, an expected default on receivables is calculated over their terms on the basis of a portfoliospecific default rate. The default rate indicates the probability that a debtor will default within a period of one year. The default rates consider the industry risks and the economic environment of the respective country. Each cluster is allocated to a different bandwidth of expected default rates.

### 28. Return Assets

As of December 31, 2018, return assets due after one year amounted to €0.6 million. The return assets relate to expected returns in connection with agreements with customers for which reutilization is expected.

### 29. Other financial assets

Other financial assets are composed as follows:

in € k	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Loan receivables . . . . .	506	38	371	20
Outstanding purchase price receivables . . . . .	—	—	—	—
Derivative financial assets . . . . .	2,237	2,237	678	678
Other financial assets . . . . .	10,835	10,480	9,847	9,111
<b>Total . . . . .</b>	<b>13,578</b>	<b>12,755</b>	<b>10,896</b>	<b>9,809</b>

The derivative financial assets include the positive market values of currency forwards.

The remaining financial assets include receivables from factoring transactions in the amount of €4.6 million and also comprise many immaterial individual items in the Group companies.

As of December 31, 2018, other financial assets included impairments in the amount of €9.7 million (previous year: €11.4 million). The decline is based on payments received for financial assets that had been written-down. There were no outstanding amounts for non-impaired other financial assets.

## Notes (Continued)

### 30. Other assets

Other assets are composed as follows:

in € k	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Other receivables due from the tax authorities . . . . .	27,203	27,176	16,307	16,280
Prepaid expenses/deferred charges . . . . .	18,196	18,008	14,357	13,858
Assets from overfunded pension plans . . . . .	29	—	16	—
Other assets . . . . .	7,223	6,303	5,973	5,185
<b>Total . . . . .</b>	<b>52,651</b>	<b>51,487</b>	<b>36,653</b>	<b>35,323</b>

Other assets comprise many insignificant individual items in the Group companies.

As of December 31, 2018, other financial assets included impairments in the amount of €6.5 million. There were no outstanding amounts for non-impaired other financial assets as in the previous year.

### 31. Inventories

Inventories can be subdivided as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Materials and supplies . . . . .	108,541	91,638
Work in progress . . . . .	41,757	31,658
Finished goods and merchandise . . . . .	354,484	453,172
Advance payments to suppliers . . . . .	10,469	8,637
<b>Total . . . . .</b>	<b>515,251</b>	<b>585,105</b>

In financial year 2018, impairments netted with reversals were made on the net realizable value of inventories in the amount of €35.7 million (previous year: €25.7 million), which were already deducted from the amounts shown above through profit and loss.

### 32. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits as well as current and highly liquid financial investments with a maximum term of 90 days from the purchase date. In certain countries, specific transactions are subject to special monitoring in the context of the requirements of the respective national bank or foreign exchange acts in force. Restrictions on disposal for cash and cash equivalents amounted to €2.2 million (previous year: €2.7 million) exclusively related to cash in China.

The development of cash and cash equivalents as of December 31, 2018 at €360.7 million (previous year: €474.8 million) resulted from the effects described as part of the explanations of the consolidated cash flow statement. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

### 33. Non-current assets and disposal groups held for sale as well as associated liabilities

As of December 31, 2018, assets held for sale of €0.1 million (previous year: €1.8 million) were reported under a separate item in the balance sheet.

In the previous year, this item included, among other things, a building from a German subsidiary that was held for sale as well as an intangible asset from an Italian subsidiary held for sale.

### 34. Equity

Group equity amounted to €–369.8 million as of the balance sheet date (previous year: €1,533.5 million). This corresponds to an equity ratio of –5.4% (previous year: 21.7%).



## Notes (Continued)

### 34. Equity (Continued)

#### 34.1. Share capital and capital reserve

Share capital amounted to €25,000 as of December 31, 2018 (previous year: €25,000) and was fully paid-up.

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in equity and exclusively include the capital reserve of Nidda German Topco GmbH. The decrease by €517.4 million of the capital reserve in financial year 2018 is related to the initial recording of a financial liability in the amount of €1,586.5 million due to the conclusion of the DPLTA between Nidda Healthcare GmbH and STADA Arzneimittel AG.

#### 34.2. Retained earnings including net result

Retained earnings including net result comprise net result for financial year 2018. In addition, re-valuations of net debt from defined benefit plans that were recognized through other comprehensive income are reported under this item, taking deferred taxes into account.

In the context of measuring the defined benefit obligations as of December 31, 2018, the net result in the amount of €0.9 million—not considering amounts attributable to non-controlling interests—resulted from the remeasurement (previous year: €1.2 million) after deferred tax liabilities. In addition, this position also includes currency translation differences related to the revaluation of net debt recognized in equity from performance-oriented pension plans as well as the deferred taxes they incur which, in financial year 2018, amounted to expenses recognized in equity of €0.03 million (previous year: €0.2 million).

#### 34.3. Other reserves

Other reserves include results recognized directly in equity. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are reported in the statement of changes in equity under the currency translation reserve.

Due to the application of the new standard IFRS 9 as of January 1, 2018, other reserves additionally include the reserve FVOCI. Under this item, fair value changes of the fair value recognized through other comprehensive income are accounted for without impact on profit or loss.

The decrease in other reserves in the reporting year resulted in particular from the depreciation of the Russian ruble since December 31, 2017, as well as the resulting expenses from foreign currency translation of the companies reporting in this currency.

#### 34.4. Shares relating to non-controlling shareholders

Shares relating to non-controlling interests as of December 31, 2018 related to the minority interests of other shareholders in the subsidiaries Hemofarm Banja Luka, Hemomont, Pymepharco, STADA Pharmaceuticals (Beijing) and Well Light Investment Services. In addition, the consolidation of the two subsidiaries BIOCEUTICALS Arzneimittel AG and NorBiTec GmbH since September 2018 has resulted in shares relating to non-controlling shareholders attributable to these companies being reported under this item.

The minority interests held in STADA Arzneimittel AG that were included in the shares relating to non-controlling shareholders no longer exist as of December 31, 2018. Recognizing the financial liability in connection with the DPLTA led to these minority interests being derecognized in financial year 2018. As a result of the deconsolidation of STADA Vietnam J.V. as a subsidiary in financial year 2017, there are no longer any minority interests of other shareholders included in this item as of December 31, 2017.

## Notes (Continued)

### 35. Other non-current provisions

Other non-current provisions made as of the balance sheet date in Germany and outside Germany include pension provisions and other non-current provisions in the form of anniversary provisions and provisions for working time accounts as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Germany . . . . .	15,397	15,305
Outside Germany . . . . .	18,093	19,988
<b>Total . . . . .</b>	<b><u>33,490</u></b>	<b><u>35,293</u></b>

In Germany, the Group has plan assets in the form of reinsurance policies, which are used to serve the pension entitlements of a small number of former employees. In addition, there are plan assets for a pension obligation which was outsourced to a pension fund. All further pension entitlements are financed internally in the scope of pension provisions. In addition, there are plan assets in a few foreign subsidiaries in the form of, among other things, insurances, government bonds and securities funds.

In financial year 2018, the plan assets of one international subsidiary exceeded their pension obligations, with the result that these assets in excess were reported under other assets as assets from overfunded pension plans in the amount of €0.03 million (previous year: €0.02 million).

Plan assets were divided according to investment type as follows:

Share of plan assets in € k	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents . . . . .	1,258	1,006
Equity securities . . . . .	7,074	6,976
Debt securities . . . . .	22,522	19,696
Real estate . . . . .	1,945	1,945
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	9,082	14,013
Insurance policies . . . . .	72,444	75,297
Other . . . . .	—	—
<b>Total . . . . .</b>	<b><u>114,325</u></b>	<b><u>118,933</u></b>

The plan assets, which have a quoted market price, consist of the following:

Share of plan assets (quoted market price) in € k	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents . . . . .	1,258	1,006
Equity securities . . . . .	7,074	6,976
Debt securities . . . . .	22,522	19,696
Real estate . . . . .	1,945	1,945
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	9,082	14,013
Insurance policies . . . . .	—	—
Other . . . . .	—	—
<b>Total . . . . .</b>	<b><u>41,881</u></b>	<b><u>43,636</u></b>

## Notes (Continued)

### 35. Other non-current provisions (Continued)

For German Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € k	2018	2017
<b>As of January 1</b> . . . . .	<b>54,277</b>	<b>—</b>
Business combinations . . . . .	—	56,693
Current service cost . . . . .	24	14
Past service cost . . . . .	—	—
Plan settlements . . . . .	—	—
Interest cost . . . . .	1,016	322
Benefits paid from plan assets . . . . .	– 1,216	– 403
Benefits paid by employer . . . . .	– 622	– 151
Revaluations:		
• Gains (–) / losses (+) due to changed demographic assumptions . . . . .	124	—
• Gains (–) / losses (+) due to changed financial assumptions . . . . .	– 891	– 1,589
• Gains (–) / losses (+) due to experience-based changes . . . . .	595	– 609
<b>As of Dec. 31</b> . . . . .	<b>53,307</b>	<b>54,277</b>

For international Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € k	2018	2017
<b>As of January 1</b> . . . . .	<b>93,014</b>	<b>—</b>
Business combinations . . . . .	—	93,497
Current service cost . . . . .	2,725	949
Past service cost . . . . .	– 542	—
Plan settlements . . . . .	– 139	– 16
Interest cost . . . . .	1,898	637
Benefits paid from plan assets . . . . .	– 5,549	– 339
Benefits paid by employer . . . . .	– 925	– 249
Employee contributions . . . . .	523	179
Insurance premiums for death and disability benefits . . . . .	– 226	– 84
Disposals . . . . .	—	– 323
Revaluations:		
• Gains (–) / losses (+) due to changed demographic assumptions . . . . .	– 400	302
• Gains (–) / losses (+) due to changed financial assumptions . . . . .	– 2,978	– 222
• Gains (–) / losses (+) due to experience-based changes . . . . .	– 947	– 340
Currency changes . . . . .	383	– 914
Other . . . . .	– 84	– 63
<b>As of Dec. 31</b> . . . . .	<b>86,753</b>	<b>93,014</b>

The past service cost in the reporting year amounts to a gain of €0.5 million and is largely attributable to special events in the United Kingdom, Switzerland and France. In the United Kingdom, the Supreme Court in 2018 definitively confirmed a ruling that gender inequalities must be eliminated with respect to guaranteed minimum pensions (GMPs) included in occupational pension plans. This resulted in past service cost of €0.3 million. In Switzerland, the underlying group foundation has reduced the conversion amounts from retirement capital to lifelong annuities. This resulted in a gain of €0.4 million for the STADA Group. In France, a plan curtailment led to an additional gain in the amount of of €0.4 million. In addition, there were other special events with an insignificant impact on the balance sheet.

## Notes (Continued)

### 35. Other non-current provisions (Continued)

The fair value of plan assets underlying the pension obligations developed as follows for German group companies:

Fair value of plan assets in € k	2018	2017
<b>As of January 1</b> . . . . .	<b>42,520</b>	<b>—</b>
Business combinations . . . . .	—	44,303
Interest income . . . . .	790	246
Employer contributions . . . . .	142	88
Employee contributions . . . . .	—	—
Pension payments . . . . .	– 1,216	– 403
Actuarial gains (+) / losses (–) on plan assets (not included in interest result) . . .	– 658	– 1,714
Other . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b>41,578</b>	<b>42,520</b>

The fair value of plan assets underlying the pension obligations developed as follows for international Group companies:

Fair value of plan assets in € k	2018	2017
<b>As of January 1</b> . . . . .	<b>76,413</b>	<b>—</b>
Business combinations . . . . .	—	75,746
Interest income . . . . .	1,504	472
Employer contributions . . . . .	2,822	996
Employee contributions . . . . .	523	179
Pension payments . . . . .	– 5,549	– 339
Insurance premiums for death and disability benefits . . . . .	– 226	– 84
Disposals . . . . .	—	—
Reclassifications . . . . .	—	—
Actuarial gains (+) / losses (–) on plan assets (not included in interest result) . . .	– 2,935	646
Currency changes . . . . .	299	– 1,135
Other . . . . .	– 104	– 68
<b>As of Dec. 31</b> . . . . .	<b>72,747</b>	<b>76,413</b>

The net liability for German Group companies from defined benefit pension plans developed as follows:

Net liability from defined benefit pension plans in € k	2018	2017
<b>As of January 1</b> . . . . .	<b>11,757</b>	<b>—</b>
Business combinations . . . . .	—	12,390
Expenses from pension plans recognized in income . . . . .	250	90
Revaluations . . . . .	486	– 484
Employer contributions . . . . .	– 142	– 88
Employee contributions . . . . .	– 622	– 151
Currency translation differences . . . . .	—	—
<b>As of December 31</b> . . . . .	<b>11,729</b>	<b>11,757</b>

## Notes (Continued)

### 35. Other non-current provisions (Continued)

The net liability for international Group companies from defined benefit pension plans developed as follows:

Net liability from defined benefit pension plans in € k	2018	2017
<b>As of January 1</b> . . . . .	<b>16,601</b>	<b>—</b>
Business combinations . . . . .	—	17,751
Expenses from pension plans recognized in income . . . . .	2,455	1,119
Revaluations . . . . .	– 1,387	– 922
Employer contributions . . . . .	– 2,822	– 996
Employee contributions . . . . .	– 925	– 249
Disposals . . . . .	—	– 323
Reclassifications . . . . .	—	—
Currency translation differences . . . . .	84	221
Other . . . . .	—	—
<b>As of December 31</b> . . . . .	<b>14,006</b>	<b>16,601</b>

The amount of the pension provisions recognized as of the reporting date for companies with plan assets was therefore as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Projected benefit obligations for pension commitments . . . . .	128,370	135,357
Fair value of plan assets . . . . .	114,325	118,933
<b>Net obligation</b> . . . . .	<b>14,045</b>	<b>16,424</b>
Effect from the limit on a defined benefit asset according to IFRIC 14 . . . . .	—	—
<b>Net liability recognized in balance sheet</b> . . . . .	<b>14,045</b>	<b>16,424</b>

The amount of the pension provisions recognized as of the reporting date for companies without plan assets was therefore as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Projected benefit obligations for pension commitments . . . . .	11,690	11,934
<b>Net liability recognized the in balance sheet</b> . . . . .	<b>11,690</b>	<b>11,934</b>

Expenses for defined benefit plans amounted to net expenses in the total amount of €2.7 million in financial year 2018 (previous year: €1.2 million) and consisted of the following components:

in € k	2018	2017
Current service cost . . . . .	2,749	963
Past service cost . . . . .	– 542	—
Plan settlements . . . . .	– 139	– 16
Net interest expense:		
• Interest expense (DBO) . . . . .	2,914	959
• Interest income (plan assets) . . . . .	– 2,294	– 719
• Interest income from reimbursement . . . . .	—	—
• Interest expense (+) / interest income (–) from the limit on an asset . . . . .	—	—
Administrative expenses . . . . .	17	21
Other . . . . .	—	—
<b>Total</b> . . . . .	<b>2,705</b>	<b>1,209</b>

Gains from plan assets amounted in financial year 2018 to €0.1 million (previous year: € – 1.5 million) for German Group companies and € – 1.4 million (previous year: €1.1 million) for foreign Group companies.



## Notes (Continued)

### 35. Other non-current provisions (Continued)

The amount of the income from plan assets for German Group companies is largely determined by raising the value of the plan assets of a commitment to the value of the gross obligation on the basis of the reinsurance available for this purpose. This decreased as a result of the slight increase in the discount rate in the 2018 financial year and thus had a reducing effect on income. The reduction in the income from plan assets abroad is mainly due to a negative performance of plan assets in the United Kingdom and a decrease in the income from plan assets in the Netherlands. In the Netherlands, the amount of plan assets is determined on the basis of an actuarial valuation and is therefore crucially dependent on the development of the discount rate. In financial year 2018, the actuarial interest rate has risen. This has led to a reduction in the obligation and the plan assets and thus the income.

The following actuarial parameters were used as a basis for measuring the German pension obligations and pension costs:

Parameters for pension obligations for German Group companies (weighted)	Dec. 31, 2018	Dec. 31, 2017
Discount rate .....	2.0%	1.9%
Salary trend .....	3.0%	3.0%
Benefits trend .....	1.4%	1.4%
Inflation .....	1.8%	1.8%

The following actuarial parameters were used as a basis for measuring the international pension obligations and pension costs:

Parameters for pension obligations for international Group companies (weighted)	Dec. 31, 2018	Dec. 31, 2017
Discount rate .....	2.3%	2.1%
Salary trend .....	2.1%	2.1%
Benefits trend .....	0.8%	0.9%
Inflation .....	1.8%	1.8%

A sensitivity analysis was carried out in which only one assumption was changed in each case and all other assumptions were not changed. In the following, the change in the defined benefit obligation of the pension obligations (DBO) for German Group companies is presented according to a change in the discount rate, salary trends and pension trends:

Change in the defined benefit obligations (DBO) as of December 31, 2018 (€53,307 k) in accordance with changed assumptions in € k	Dec. 31, 2018	Dec. 31, 2017
Discount rate +0.5% .....	-4,418	-4,681
Discount rate -0.5% .....	5,034	5,376
Salary trend +0.5% .....	4	8
Salary trend -0.5% .....	-5	-6
Pension trend +0.5% .....	5,032	5,294
Pension trend -0.5% .....	-4,410	-4,613

The salary trend is largely insignificant, because all active plan participants are close to reaching the scheduled retirement age.

In the following, the change in the defined benefit obligations (DBO) for international Group companies is presented according to a change in the discount rate, salary trends and pension trends:

Change in the defined benefit obligations (DBO) as of December 31, 2018 (€86,753 k) in accordance with changed assumptions in € k	Dec. 31, 2018	Dec. 31, 2017
Discount rate +0.5% .....	-6,618	-7,234
Discount rate -0.5% .....	7,566	8,026
Salary trend +0.5% .....	680	731
Salary trend -0.5% .....	-646	-915
Pension trend +0.5% .....	3,574	4,708
Pension trend -0.5% .....	-1,477	-1,804

## Notes (Continued)

### 35. Other non-current provisions (Continued)

As of December 31, 2018, the weighted duration of pension obligations amounted to 18 years (previous year: 18 years) for German Group companies and 17 years (previous year: 17 years) for foreign Group companies.

In the coming financial years, the following payments from the Company and from plan assets overall are expected for defined benefit plans:

Expected pension payments in accordance with maturity dates in € k	Germany	Outside Germany
Less than 1 year . . . . .	2,009	2,807
Between 1 and 2 years . . . . .	1,993	2,355
Between 2 and 3 years . . . . .	2,002	2,481
Between 3 and 4 years . . . . .	1,995	2,727
Between 4 and 5 years . . . . .	2,005	2,669
Between 5 and 10 years . . . . .	9,964	17,017

For the coming financial year, employer contributions, consisting of direct pension payments and contributions to the plan assets, are expected in the amount of €0.8 million for German Group companies and €3.7 million for international Group companies.

The regulations of IAS 19 require a presentation of the benefit plans that generate obligations for the company. For the Group, pension plans in Germany, the Netherlands, the United Kingdom and Switzerland account for the largest share of total obligations with 84%. Accordingly, the following details focus more on these countries.

In Germany, the legal framework for company pension plans is provided by the Company Pensions Act (Betriebsrentengesetz—BetrAVG) in which minimum legal requirements are attached to company pension plans. Furthermore, regulation and legal precedents within labor law must also be followed. The retirement benefit plans are predominantly based upon the final salary and are concluded with newly hired employees. Plan participants are primarily beneficiaries. Benefits are paid out in the form of a pension. In the calculation of the amount of the pension obligations, the Heubeck 2018G mortality tables were used as a basis for consideration of mortality and fluctuation.

In Germany, the Group has plan assets in the form of reinsurance policies and in the form of assets in a pension fund. As of December 31, 2018, plan assets amounted to €41.6 million and were composed of three different plans. There were no plan assets for two additional plans.

In the context of risk assessment, the life expectancy of plan participants plays a smaller role in Germany, as the material obligation regarding its amount and including associated risks was outsourced externally. Further more, there is also the common risk of the interest rate development.

The pension commitment for the former Chairman of the STADA Arzneimittel AG Executive Board Hartmut Retzlaff was transferred to a pension fund in full in financial year 2014. Despite the transfer, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as a defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly in the balance sheet. The existing plan assets lead to a provision of zero due to offsetting that must be carried out at the time of the plan amendment for this benefit plan. Because the pension commitment is fully funded, no further provisions are expected in the future.

Pension legislation in the Netherlands requires pension plans to be backed by assets to such an extent that the vested benefits are completely covered. The underlying average career pension plan in the Netherlands is, in part, financed via insurance contributions that are designed to fulfill the aforementioned requirement. The plan is open for new employees and contains benefits that fall due in case of retirement or early death.

In the Netherlands, the pension plan is, in part, financed via contributions to an insurance company. Assets received by the insurance company thereby cannot be allocated to specific participating companies. The assets cannot be determined by a quoted active market price, instead they are determined according to the amount of vested benefit obligations. As of December 31, 2018, plan assets amounted to €25.6 million.

## Notes (Continued)

### 35. Other non-current provisions (Continued)

The Dutch company pays annual pension contributions. In the process, life expectancy risk and interest rate risk are transferred to the insurance company. The insurance company also assumes the risk of investing the contributions. These risks are assumed by the insurance company for the entire term of the contract. If, for example, the discount rate used by the insurance company in its calculations should change, a new contract could be concluded that applies the new discount rate to underlie only future contributions received.

Not all risks have been transferred to the insurance company. Dutch law specifies that former employees have the right to transfer their pension entitlements to the pension plan of a new employer. If the evaluation assumptions applied in the transfer differ from the originally applied assumptions of the insurance, the company could be required to make an additional contribution payment. In the calculation of the amount of the pension obligations and plan assets, the assumptions of the AG forecast table 2018 were used as a basis for consideration of the mortality. Company-specific age-related annual fluctuation rates serve as a fluctuation assumption.

In the United Kingdom, employees are provided with defined benefit plans that are concluded for new hires. The employees can also no longer earn an additional increase in their entitlements. The pension plans are subject to the United Kingdom Trust Law and the United Kingdom Pension Regulator. The pension plans are monitored by trustees who determine the investment strategy. The trustees are also responsible for fulfilling the legally required pension plan funding and thereby ensuring sufficient assets to cover the technical provisions of the plan. The pension plan is subject to risks relating to the discount rate and participant life expectancy as well as inflation risk, if these values develop contrary to expectations. If the discount rate is low, the level of funding decreases, which may require the payment of additional contributions. There is a financing risk in plan assets in that plan assets could develop contrary to expectations and plan assets could therefore only compensate in part for changes in the obligations.

As of December 31, 2018, plan assets amounted to €21.4 million. All assets have quoted market prices on an active market. In the calculation of the amount of the pension obligations, the mortality tables of the S2 Series (S2PA) were used as a basis for consideration of the mortality also including the projection table CMI 2015 as well as the long-term trend toward improved mortality of 1.25%. Fluctuation assumptions are no longer relevant for the pension plan.

In Switzerland, every employer must offer its employees a pension plan in accordance with federal pension law (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge—BVG). Employees whose salary exceeds the entry limit are obliged to be insured—this is re-determined periodically. The BVG requires a minimum plan (the “BVG minimum”) that must always be covered. The Group’s Swiss benefit plan includes benefits in case of death, disability, departure and upon reaching retirement age. The annual pension is calculated based on a savings account and conversion rate determined according to the age of retirement. Plan participants can opt for a capital option. In the calculation of the amount of the pension obligations, the BVG 2015 GT mortality tables were used as a basis for consideration of mortality and fluctuation.

Various Group companies additionally grant their employees defined contribution plans. Here, Group companies pay defined contributions to independent institutions due to legal or contractual requirements or on a voluntary basis; liabilities beyond this do not exist. The contributions for defined contribution plans, which are reported as expense in the respective period in the relevant functional areas, amounted to €26.9 million in financial year 2018 (previous year: €8.9 million).

## Notes (Continued)

### 35. Other non-current provisions (Continued)

The other non-current provisions developed as follows:

Other non-current provisions in € k	2018	2017
<b>As of January 1</b> . . . . .	<b><u>6,919</u></b>	<b><u>—</u></b>
Business combinations . . . . .	—	7,131
Current service cost . . . . .	519	147
Past service cost . . . . .	86	—
Plan settlements . . . . .	—	—
Interest cost . . . . .	211	64
Benefits paid . . . . .	– 630	– 153
Revaluations		
• gains (–) / losses (+) due to changed demographic assumptions . . . . .	10	– 40
• gains (–) / losses (+) due to changed financial assumptions . . . . .	351	– 406
• gains (–) / losses (+) due to experience-based changes . . . . .	275	158
Currency changes . . . . .	– 15	18
Reclassifications . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b><u>7,726</u></b>	<b><u>6,919</u></b>

### 36. Financial liabilities

Financial liabilities<sup>9</sup> are comprised as follows in accordance with their remaining terms as of the balance sheet date:

Remaining term of financial liabilities as of December 31, 2018 in € k	< 1 Year	1–3 Years	3–5 Years	> 5 Years	Total
Promissory note loans . . . . .	132,270	43,065	6,986	—	182,321
Bonds <sup>10</sup> . . . . .	279,345	—	—	1,305,025	1,584,370
Liabilities to banks <sup>11</sup> . . . . .	42,951	—	—	2,320,103	2,363,054
Liabilities to shareholders <sup>12</sup> . . . . .	—	—	—	1,015,990	1,015,990
Liabilities from DPLTA . . . . .	13,342	—	280,911	—	294,253
<b>Total</b> . . . . .	<b><u>467,908</u></b>	<b><u>43,065</u></b>	<b><u>287,897</u></b>	<b><u>4,641,118</u></b>	<b><u>5,439,988</u></b>

<sup>9</sup> For further details on the financing of the takeover of STADA Arzneimittel AG, see the chapter on the financial position in the economic report of the Group Management Report.

<sup>10</sup> The current portion in the first column represents the bond of STADA Arzneimittel AG existing on the balance sheet date. The non-current portion (> 5 years) in the fourth column represents the SSN bond of Nidda Healthcare Holding GmbH as well as the First SUN Bond and the Second SUN Bond of Nidda BondCo GmbH existing on the balance sheet date.

<sup>11</sup> The portion with a remaining term of > 5 years relates to the Term Loan.

<sup>12</sup> Represents shareholder loans and similar instruments provided by Nidda Midco S.à r.l. as part of the equity commitments of the sponsors to Nidda German Topco GmbH. Nidda German Topco GmbH transferred the amounts received under the title of equity commitments to Nidda German Midco GmbH, which in turn transferred these amounts to Nidda BondCo GmbH by way of a capital contribution and additional payment to the capital reserve. See Note 42. in the section “Notes to the Consolidated Financial Statements” for further financial information in the form of reconciliations.

## Notes (Continued)

### 36. Financial liabilities (Continued)

Remaining term of financial liabilities as of December 31, 2017 in € k	< 1 year	1–3 years	3–5 years	> 5 years	Total
Promissory note loans . . . . .	535,743	—	—	—	535,743
Bonds <sup>13</sup> . . . . .	660,379	—	—	1,056,064	1,716,443
Liabilities to banks <sup>14</sup> . . . . .	96,913	816	—	344,770	442,499
Liabilities to shareholders <sup>15</sup> . . . . .	—	—	—	1,002,666	1,002,666
Liabilities from DPLTA . . . . .	—	—	—	—	—
<b>Total</b> . . . . .	<b>1,293,035</b>	<b>816</b>	<b>—</b>	<b>2,403,499</b>	<b>3,697,351</b>

The financing agreements existing at the level of STADA Arzneimittel AG provide for a right of repayment of bonds, promissory note loans or bank loans by the respective investors if a change of control and a change in STADA's rating occur. As a result of the acquisition in 2017, STADA expected that a repayment could be made in the short term, which is why a corresponding disclosure of these financial liabilities in the balance sheet as at December 31, 2017, with short-term maturity was made. After the exercise option and the associated early repayment of due amounts expired in the first quarter of 2018, non-opted financial liabilities were reclassified accordingly in this period to current and non-current liabilities and the non-prematurely reduced financing agreements were assigned to their original terms on the balance sheet. STADA Arzneimittel AG and certain material subsidiaries (in accordance with the instructions given by the majority shareholder Nidda Healthcare GmbH) have provided certain collateral to secure capital market liabilities and other financial liabilities assumed by Nidda and its affiliated companies (including STADA) or for which Nidda and its affiliated companies (including STADA) have provided collateral. The provision of these collateral securities results in the holders of the bonds having the right to redeem the nominal amount and accrued interest under STADA bonds. The bond is therefore classified as current.

In order to partially finance the shares in STADA Arzneimittel AG tendered as part of the purchase offer, Nidda BondCo GmbH issued a bond with a total volume of €250.0 million and an interest rate of 7.25% p.a. on December 4, 2018 and December 13, 2018 ("Second SUN Bond"). In addition, Nidda Healthcare GmbH received an additional loan under the syndicated loan agreement with a total nominal amount of €705 million on November 27, 2018 ("Facility D").

Bridge loans concluded for the acquisition of STADA Arzneimittel AG with a nominal volume of €485.0 million and €340.0 million were refinanced in financial year 2017 through two long-term bonds with a nominal volume of €735.0 ("SSN bond") and €340.0 million ("First SUN Bond").

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2018, from interest payments and repayment of financial liabilities for the coming years can be seen in the following table:

in € k	2019			2020			> 2021		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . . .	69,678	94,653	445,569	61,405	94,526	12,950	279,113	319,840	5,403,524

<sup>13</sup> The current portion in the first column represents the bond of STADA Arzneimittel AG existing on the balance sheet date. The non-current portion (> 5 years) in the fourth column represents the SSN bond of Nidda Healthcare Holding GmbH as well as the First SUN Bond of Nidda BondCo GmbH existing on the balance sheet date.

<sup>14</sup> The portion with a remaining term of > 5 years relates to the Term Loan.

<sup>15</sup> Represents shareholder loans and similar instruments provided by Nidda Midco S.à r.l. as part of the equity commitments of the sponsors to Nidda German Topco GmbH. Nidda German Topco GmbH transferred the amounts received under the title of equity commitments to Nidda German Midco GmbH, which in turn transferred these amounts to Nidda BondCo GmbH by way of a capital contribution and additional payment to the capital reserve. See Note 42 in the section "Notes to the Consolidated Financial Statements" for further financial information in the form of reconciliations.



## Notes (Continued)

### 36. Financial liabilities (Continued)

The following cash flow projection from financial liabilities was made for the previous year.

in € k	2018			2019			> 2020		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . .	57,586	1,092	1,272,878	43,229	20,764	260	232,790	103,820	3,049,713

For the financial liabilities existing as of the reporting date, a repayment in accordance with the maturity disclosed in the balance sheet was generally assumed. The variable interest payments from the promissory note loans were determined based on the interest rate last fixed before December 31, 2017.

The financial liabilities whose cash-effective changes are included in the cash flow from financing activities resulted in the reporting year in the following reconciliation:

2018 in € k	Financial liabilities
<b>As of January 1</b> . . . . .	<b><u>3,697,351</u></b>
Additions from business combinations according to IFRS 3 . . . . .	—
Cash inflows from additions . . . . .	2,538,500
Cash outflows from repayments . . . . .	1,097,674
Changes in the scope of consolidation . . . . .	—
Effects from currency translation . . . . .	– 2,492
Other non-cash effective changes . . . . .	304,303
<b>As of Dec. 31</b> . . . . .	<b><u>5,439,988</u></b>

For the financial liabilities whose cash-effective change are included in the cash flow from financing activities resulted in the previous year in the following reconciliation:

2017 in T €	Financial liabilities
<b>As of April 18</b> . . . . .	<b><u>—</u></b>
Additions from business combinations according to IFRS 3 . . . . .	1,462,518
Cash inflows from additions . . . . .	3,326,137
Cash outflows from repayments . . . . .	1,091,721
Changes in the scope of consolidation . . . . .	—
Effects from currency translation . . . . .	– 144
Other non-cash effective changes . . . . .	561
<b>As of Dec. 31</b> . . . . .	<b><u>3,697,351</u></b>

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the Notes on the capital management of liquidity risk.

### 37. Trade accounts payable

Trade accounts payable are composed as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Trade accounts payable to third parties . . . . .	224,308	198,751
Trade accounts payable to non-consolidated Group companies . . . . .	4,059	3,849
Advances received on orders from third parties . . . . .	—	564
Liabilities from outstanding accounts . . . . .	92,545	138,460
<b>Total</b> . . . . .	<b><u>320,913</u></b>	<b><u>341,624</u></b>

Of the total amount of trade accounts payable, €0.0 million (previous year: €0.0 million) are due after one year.

## Notes (Continued)

### 38. Contract liabilities

Contract liabilities amounted to €1.5 million in the reporting year and were exclusively composed of advance payments where the fulfillment of the contractual obligation is expected in 2019. No revenue from contractual obligations that were fulfilled in earlier periods was recognized.

### 39. Other financial liabilities

Other financial liabilities are broken down as follows:

in € k	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Outstanding purchase price liabilities . . . . .	2,020	441	1,880	415
Finance lease liabilities . . . . .	4,012	1,435	3,419	1,337
Liabilities from derivative financial instruments . . . . .	3,767	95	1,694	1,250
Other financial liabilities . . . . .	222,350	222,336	212,598	212,107
<b>Total . . . . .</b>	<b>232,149</b>	<b>224,308</b>	<b>219,585</b>	<b>215,109</b>

As in the previous year, outstanding purchase price liabilities as of December 31, 2018 were based on product acquisitions in the United Kingdom.

Finance lease liabilities, such as for trucks and passenger vehicles, amounted to €4.0 million (previous year: €3.4 million). Considering interest in the amount of €0.8 million (previous year: €0.7 million), lease installments payable in subsequent years total €4.8 million (previous year: €4.1 million).

The leasing liabilities are due as follows:

in € k	Lease installments		Interest		Finance lease liabilities	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Remaining term up to 1 year . . . . .	1,750	1,706	315	368	1,435	1,338
Remaining terms over 1 year up to 3 years . . . . .	2,077	2,140	405	318	1,672	1,822
Remaining terms over 3 years up to 5 years . . . . .	983	274	78	15	905	259
Remaining terms over 5 years . . . . .	—	—	—	—	—	—
<b>Total . . . . .</b>	<b>4,810</b>	<b>4,120</b>	<b>798</b>	<b>701</b>	<b>4,012</b>	<b>3,419</b>

The liabilities from financial leasing whose cash-effective changes are included in the cash flow from financing activities resulted in the reporting year in the following reconciliation:

2018 in € k	Liabilities financial leasing
<b>As of January 1 . . . . .</b>	<b>3,419</b>
Payments . . . . .	1,924
Additions through business combinations in accordance with IFRS 3 . . . . .	1,275
Additions . . . . .	1,212
Effects from currency translation . . . . .	30
Other non-cash effective changes . . . . .	—
<b>As of Dec. 31 . . . . .</b>	<b>4,012</b>

## Notes (Continued)

### 39. Other financial liabilities (Continued)

In the previous year, the following reconciliation was made for liabilities from financial leasing, the cash changes of which are included in the cash flow from financing activities:

2017 in € k	Liabilities financial leasing
<b>As of April 18</b> . . . . .	<u>—</u>
Payments . . . . .	917
Additions through business combinations in accordance with IFRS 3 . . . . .	2,945
Additions . . . . .	1,382
Effects from currency translation . . . . .	9
Other non-cash effective changes . . . . .	<u>—</u>
<b>As of Dec. 31</b> . . . . .	<b><u>3,419</u></b>

In addition, negative market values of derivatives measured at fair value through profit or loss were reported in liabilities from derivative financial instruments. In financial year 2018, this related to currency forwards and interest rate swaps. Within the scope of the maturity date analysis, the following contractually agreed remaining terms result for these derivative financial liabilities:

in € k	Derivative financial liabilities
	Dec. 31, 2018      Dec. 31, 2017
Remaining term up to 1 year . . . . .	95      1,250
Remaining terms over 1 year to 3 years . . . . .	—      —
Remaining terms over 3 years up to 5 years . . . . .	3,672      444
Remaining terms over 5 years . . . . .	—      —
<b>Total</b> . . . . .	<b><u>3,767</u></b> <b><u>1,694</u></b>

Remaining financial liabilities include liabilities from discount agreements of German STADA companies in the amount of €128.1 million (previous year: €140.8 million) and also comprise many immaterial individual items in the Group companies. Remaining financial liabilities in the amount of €222.3 million (previous year: €212.1 million) are due within one year and in the amount of €0.0 million (previous year: €0.5 million) after one to five years.

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2018, from interest payments and repayment of finance lease liabilities and for the liabilities from derivative financial instruments for the coming years can be seen in the following table:

in € k	2019			2020			2021–2023		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	315	—	1,435	285	—	1,038	198	—	1,539
Cash flows from derivatives	1,580	—	—	1,580	—	—	1,975	—	—

The following projection of cash flows from finance lease liabilities and derivatives was made for the previous year:

in € k	2018			2019			2020–2022		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	368	—	1,338	226	—	1,027	107	—	1,054
Cash flows from derivatives	1,185	—	—	1,580	—	—	3,555	—	—

## Notes (Continued)

### 39. Other financial liabilities (Continued)

Included were all financial instruments used which existed as of the respective balance sheet date and for which payments had already been contractually agreed.

### 40. Other liabilities

Other liabilities were comprised as follows:

in € k	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Tax liabilities . . . . .	10,966	10,966	10,254	10,251
Personnel-related liabilities . . . . .	50,639	50,636	68,283	68,283
Other liabilities . . . . .	71,413	68,956	49,869	48,921
<b>Total . . . . .</b>	<b>133,018</b>	<b>130,558</b>	<b>128,406</b>	<b>127,455</b>

Remaining liabilities comprise many insignificant individual items in the Group companies.

### 41. Other provisions

Other provisions are comprised as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Provisions for damages . . . . .	5,113	1,393
Provisions for returns . . . . .	17,430	22,114
<b>Total . . . . .</b>	<b>22,543</b>	<b>23,507</b>

Provisions for damages include possible utilization from pending legal disputes including the associated legal costs and developed as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
<b>As of January 1 . . . . .</b>	<b>1,393</b>	<b>—</b>
Additions through business combinations in accordance with IFRS 3 . . . . .	—	1,610
Added . . . . .	3,868	120
Utilized . . . . .	1	14
Reversed . . . . .	100	320
Changes in scope of consolidation . . . . .	34	—
Currency translation differences . . . . .	— 81	— 3
<b>As of Dec. 31 . . . . .</b>	<b>5,113</b>	<b>1,393</b>

Utilization is expected within the next twelve months.

Provisions for returns developed as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
<b>As of January 1 . . . . .</b>	<b>22,114</b>	<b>—</b>
Additions through business combinations according to IFRS 3 . . . . .	—	17,481
Added . . . . .	7,827	5,651
Utilized . . . . .	7,452	872
Reversed . . . . .	5,059	146
<b>As of Dec. 31 . . . . .</b>	<b>17,340</b>	<b>22,114</b>

## Notes (Continued)

### Other Disclosures

#### 42. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH

As a supplement to the financial information of Nidda German Topco GmbH, the Consolidated Financial Statements, the consolidated income statement and the consolidated cash flow statement for the subgroups of Nidda German BondCo GmbH and Nidda Healthcare Holding GmbH, are also presented in the notes to the Consolidated Financial Statements. They are presented in the form of a reconciliation, with each one taking the financial figures of Nidda German Topco as a starting point. It is pointed out that the notes in the Group Management Report and the notes to the Consolidated Financial Statements pertain to the consolidated figures of German Nidda Topco GmbH. The following financial figures exist only in the form of a reconciliation.

The reconciliation of the respective consolidated income statement for the 2018 financial year is listed below:

Jan. 1. to Dec. 31, 2018					
Consolidated income statement in € k	Nidda German Topco GmbH	Reconciliation	Nidda BondCo GmbH	Reconciliation	Nidda Healthcare Holding GmbH
Sales . . . . .	2,330,824	—	2,330,824	—	2,330,824
Cost of sales . . . . .	1,408,239	—	1,408,239	—	1,408,239
<b>Gross profit . . . . .</b>	<b>922,585</b>	<b>—</b>	<b>922,585</b>	<b>—</b>	<b>922,585</b>
Selling expenses . . . . .	538,596	—	538,596	—	538,596
General and administrative expenses .	212,449	– 11,722	200,727	– 4,470	196,257
Research and development expenses .	72,256	—	72,256	—	72,256
Other income . . . . .	69,824	– 19	69,805	—	69,805
Other expenses . . . . .	141,255	– 7	141,248	2,366	143,614
<b>Operating result . . . . .</b>	<b>27,853</b>	<b>11,710</b>	<b>39,563</b>	<b>2,104</b>	<b>41,667</b>
Result from investments measured at equity . . . . .	3,722	—	3,722	—	3,722
Investment income . . . . .	42	—	42	—	42
Financial income . . . . .	17,755	33	17,788	21	17,809
Financial expenses . . . . .	330,471	– 50,799	279,672	– 4,081	275,591
<b>Financial result . . . . .</b>	<b>– 308,952</b>	<b>50,832</b>	<b>– 258,120</b>	<b>4,102</b>	<b>– 254,018</b>
<b>Earnings before taxes . . . . .</b>	<b>– 281,099</b>	<b>62,542</b>	<b>– 218,557</b>	<b>6,206</b>	<b>– 212,351</b>
Income tax expenses . . . . .	15,785	—	15,785	– 770,507	– 754,722
<b>Earnings after taxes . . . . .</b>	<b>– 296,884</b>	<b>62,542</b>	<b>– 234,342</b>	<b>– 776,713</b>	<b>542,371</b>
<b>Profit/loss transfer . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>– 41,631</b>	<b>41,631</b>
<b>Results after profit/loss transfer . . . .</b>	<b>– 296,884</b>	<b>62,542</b>	<b>– 234,342</b>	<b>– 818,344</b>	<b>584,002</b>
thereof					
• attributable to Nidda German Topco GmbH (net income) . . . . .	– 286,809	62,542	– 224,267	818,344	594,077
• attributable to the non-controlling shareholders . . . . .	– 10,075	—	– 10,075	—	– 10,075
<b>Operating result . . . . .</b>	<b>27,853</b>	<b>11,710</b>	<b>39,563</b>	<b>2,104</b>	<b>41,667</b>
Amortization/impairment . . . . .	390,838	—	390,838	—	390,838
Result from investments measured at equity/Investment income . . . . .	3,764	—	3,764	—	3,764
<b>EBITDA . . . . .</b>	<b>422,455</b>	<b>11,710</b>	<b>434,165</b>	<b>2,104</b>	<b>436,269</b>
<b>Management adjusted EBITDA . . . . .</b>	<b>498,165</b>	<b>4,031</b>	<b>502,196</b>	<b>– 932</b>	<b>501,264</b>



## Notes (Continued)

### 42. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The following table shows the reconciliation of the respective consolidated balance sheet as of December 31, 2018:

	Dec. 31, 2018		Dec. 31, 2018		Dec. 31, 2018
Consolidated balance sheet in € K	Nidda German		Nidda BondCo		Nidda
Assets	Topco GmbH	Reconciliation	GmbH	Reconciliation	Healthcare
<b>Non-current assets</b>	<b>5,398,693</b>	<b>345</b>	<b>5,399,038</b>	<b>109,175</b>	<b>5,508,213</b>
Intangible assets	4,890,305	—	4,890,305	—	4,890,305
Property, plant and equipment	444,754	—	444,754	—	444,754
Financial position	2,281	—	2,281	—	2,281
Investments measured at equity	24,568	—	24,568	—	24,568
Other financial assets	823	344	1,167	117,636	118,803
Other assets	1,164	—	1,164	—	1,164
Deferred tax assets	34,798	—	34,798	-8,461	26,337
<b>Current assets</b>	<b>1,475,018</b>	<b>-426</b>	<b>1,474,591</b>	<b>-13,913</b>	<b>1,460,678</b>
Inventories	515,251	—	515,251	—	515,251
Trade accounts receivable	516,011	—	516,011	—	516,011
Return assets	620	—	620	—	620
Income tax receivables	18,095	—	18,095	-654	17,441
Other financial assets	12,757	—	12,757	—	12,757
Other assets	51,485	194	51,679	-299	51,380
Cash and cash equivalents	360,749	-620	360,129	-12,960	347,169
Non-current assets and disposal groups held for sale	50	—	50	—	50
<b>Total assets</b>	<b>6,873,711</b>	<b>-82</b>	<b>6,873,629</b>	<b>95,262</b>	<b>6,968,891</b>
<b>Equity and liabilities</b>	<b>Dec. 31, 2018</b>		<b>Dec. 31, 2018</b>		<b>Dec. 31, 2018</b>
<b>Equity</b>	<b>-369,764</b>	<b>1,067,190</b>	<b>697,426</b>	<b>869,617</b>	<b>1,567,043</b>
Share capital	25	—	25	25	50
Capital reserve	152,677	892,159	1,044,836	-14,737	1,030,099
Retained earnings including net income	-592,136	175,031	-417,105	884,334	467,229
Other reserves	-50,756	—	-50,756	-4	-50,760
<b>Equity attributable to shareholders of the parent</b>	<b>-490,192</b>	<b>1,067,190</b>	<b>576,998</b>	<b>869,618</b>	<b>1,446,616</b>
Shares relating to non-controlling shareholders	120,427	—	120,427	—	120,427
<b>Non-current borrowed capital</b>	<b>5,987,381</b>	<b>-1,015,990</b>	<b>4,971,391</b>	<b>-766,034</b>	<b>4,205,357</b>
Other non-current provisions	33,490	—	33,490	—	33,490
Financial liabilities	4,972,080	-1,015,990	3,956,090	-580,753	3,375,337
Other financial liabilities	7,841	—	7,841	586,917	594,758
Other liabilities	2,460	—	2,460	—	2,460
Deferred tax liabilities	971,510	—	971,510	-772,198	199,312
<b>Current borrowed capital</b>	<b>1,256,094</b>	<b>-51,282</b>	<b>1,204,812</b>	<b>-8,321</b>	<b>1,196,491</b>
Other provisions	22,543	—	22,543	—	22,543
Financial liabilities	467,908	—	467,908	—	467,908
Trade accounts payable	320,913	-347	320,566	-1,934	318,632
Contract liabilities	1,491	—	1,491	—	1,491
Income tax liabilities	88,373	—	88,373	-8,650	79,723
Other financial liabilities	224,308	-50,786	173,522	2,527	176,049
Other liabilities	130,558	-150	130,408	-263	130,145
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	—	—	—	—	—
<b>Total equity and liabilities</b>	<b>6,873,711</b>	<b>-82</b>	<b>6,873,629</b>	<b>95,262</b>	<b>6,968,891</b>
<b>Net debt (including IC loans)</b>	<b>5,079,239</b>	<b>-1,015,370</b>	<b>4,063,869</b>	<b>19,124</b>	<b>4,082,993</b>
thereof					
• IC loan liability	1,015,990				586,917
• Financial liability due to DPLTA	294,253				

## Notes (Continued)

### 42. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

The reconciliation of the consolidated cash flow statement for 2018 is as follows:

Consolidated Cash Flow Statement in € k	Dec. 31, 2018	Reconciliation	Dec. 31, 2018	Reconciliation	Dec. 31, 2018
	Nidda German Topco GmbH		Nidda BondCo GmbH		Nidda Healthcare Holding GmbH
Earnings after taxes . . . . .	– 296,884	62,542	– 234,342	818,344	584,002
Depreciation and amortization of non-current assets . . . . .	390,838	—	390,838	—	390,838
Income tax expenses . . . . .	15,785	—	15,785	– 770,507	– 754,722
Income tax payments . . . . .	– 47,196	—	– 47,196	—	– 47,196
Interest income and expenses . .	312,716	– 50,832	261,884	– 4,102	257,782
Interest and dividends received	4,726	—	4,726	—	4,726
Interest paid . . . . .	– 111,564	—	– 111,564	3,125	– 108,439
Result from investments measured at equity . . . . .	– 3,722	—	– 3,722	—	– 3,722
Result from disposal of non-current assets . . . . .	1,421	—	1,421	—	1,421
Additions/reversals of other non-current provisions . . . . .	2,673	—	2,673	—	2,673
Currency translation income and expenses . . . . .	– 1,090	—	– 1,090	—	– 1,090
Other income/expenses with no effect on income . . . . .	254,970	—	254,970	– 41,631	213,339
<b>Gross cash flow . . . . .</b>	<b>522,673</b>	<b>11,710</b>	<b>534,383</b>	<b>5,228</b>	<b>539,611</b>
Changes in inventories . . . . .	– 44,867	—	– 44,867	—	– 44,867
Changes in trade accounts receivable . . . . .	485	—	485	—	485
Changes in trade accounts payable . . . . .	– 48,999	– 338	– 49,337	– 1,491	– 50,828
Changes in other net assets not allocable to investment and financing activity . . . . .	– 197,912	41,685	– 156,227	– 12,665	– 168,892
<b>Cash flow from operating activities . . . . .</b>	<b>231,380</b>	<b>53,057</b>	<b>284,437</b>	<b>– 8,928</b>	<b>275,509</b>
Payments for investments in					
• intangible assets . . . . .	– 280,284	—	– 280,284	—	– 280,284
• property, plant and equipment . . . . .	– 48,063	—	– 48,063	—	– 48,063
• financial assets . . . . .	– 280	—	– 280	—	– 280
• business combinations under IFRS 3 . . . . .	19,185	—	19,185	—	19,185
Proceeds from disposals of					
• intangible assets . . . . .	1,278	—	1,278	—	1,278
• property, plant and equipment . . . . .	1,655	—	1,655	—	1,655
• financial assets . . . . .	0	—	0	—	0
• shares in consolidated companies . . . . .	6,225	—	6,225	—	6,225
<b>Cash flow from investing activities . . . . .</b>	<b>– 300,284</b>	<b>—</b>	<b>– 300,284</b>	<b>—</b>	<b>– 300,284</b>

## Notes (Continued)

### 42. Financial information of Nidda BondCo GmbH and Nidda Healthcare Holding GmbH (Continued)

Consolidated Cash Flow Statement in € k	Dec. 31, 2018	Reconciliation	Dec. 31, 2018	Reconciliation	Dec. 31, 2018
	Nidda German Topco GmbH		Nidda BondCo GmbH		Nidda Healthcare Holding GmbH
Borrowing of funds . . . . .	2,538,500	—	2,538,500	246,917	2,785,417
Repayment of funds . . . . .	– 1,097,674	—	– 1,097,674	– 247,111	– 1,344,785
Repayment of finance lease liabilities . . . . .	– 1,699	—	– 1,699	—	– 1,699
Dividend distributions . . . . .	– 4,467	—	– 4,467	—	– 4,467
Capital increase . . . . .	—	– 52,859	– 52,859	—	– 52,859
Changes in non-controlling interests . . . . .	– 1,480,320	—	– 1,480,320	—	– 1,480,320
<b>Cash flow from financing activities . . . . .</b>	<b>– 45,660</b>	<b>– 52,859</b>	<b>– 98,519</b>	<b>– 194</b>	<b>– 98,713</b>
<b>Change in cash affecting liquidity . . . . .</b>	<b>– 114,564</b>	<b>198</b>	<b>– 114,366</b>	<b>– 9,123</b>	<b>– 123,489</b>
Change in cash based on scope of consolidation . . . . .	– 40	—	– 40	—	– 40
Change in cash based on currency translation . . . . .	576	—	576	—	576
<b>Net changes in cash and cash equivalents . . . . .</b>	<b>– 114,028</b>	<b>198</b>	<b>– 113,830</b>	<b>– 9,123</b>	<b>– 122,953</b>
<b>Funds at the start of the reporting period . . . . .</b>	<b>474,777</b>	<b>– 817</b>	<b>473,960</b>	<b>– 3,838</b>	<b>470,122</b>
<b>Funds at the end of the reporting period . . . . .</b>	<b>360,749</b>	<b>– 620</b>	<b>360,129</b>	<b>– 12,960</b>	<b>347,169</b>
<b>Free cash flow . . . . .</b>	<b>– 68,904</b>	<b>53,057</b>	<b>– 15,847</b>	<b>– 8,928</b>	<b>– 24,775</b>
<b>Adjusted free cash flow . . . . .</b>	<b>160,695</b>	<b>53,057</b>	<b>213,752</b>	<b>– 8,928</b>	<b>204,824</b>

### 43. Notes to the cash flow statement

Cash flow from operating activities consists of changes in items not covered by capital expenditure, financing, changes in exchange rates from the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities amounted to €231.4 million in the reporting year (previous year: €72.0 million).

Cash flow from investing activities reflects the cash outflows for investments reduced by the proceeds from disposals. This amounted to €– 300.3 million in the reporting year (previous year: €– 2,465.8 million). In financial year 2018, cash outflows for investments in intangible assets amounted to €280.3 million (previous year: €17.6 million), of which €255.4 million (previous year: €12.1 million) were attributable to payments for significant investments in intangible assets for the short-term expansion of the product portfolio.

Cash flow from investing activities was characterized by payments for investments in intangible assets, which mainly related to the acquisition of the rights to the medical dandruff shampoo Nizoral® for the EMEA region and the reacquisition of the trademark rights to the sunscreen Ladival®. In the context of business combinations, there were net inflows from the acquisition of the majority interest in BIOCEUTICALS Arzneimittel AG, as the company's cash and cash equivalents acquired at the time of acquisition exceeded the purchase price.

Proceeds from the disposal of shares in consolidated companies related to dividends of STADA Vietnam J.V., which is accounted for using the equity method. They represent partial payments in connection with the agreement concluded in the fourth quarter of 2017 to sell the shares in this company held by STADA as of December 31, 2019.

## Notes (Continued)

### 43. Notes to the cash flow statement (Continued)

The development in the previous year was significantly influenced by payments for the takeover of STADA Arzneimittel AG. The payments made through this business combination for the acquisition of the shares totaled €2,434.5 million in 2017. Included in that is the cash taken over at the time of the acquisition in the amount of €270.2 million, which has already been deducted.

Cash flow from financing activities amounts to €–45.7 million in financial year 2018 and encompasses payments from changes in financial liabilities, dividend distribution payments as well as additions to shareholders' equity (previous year: €2,883.1 million).

In order to finance the shares in STADA Arzneimittel AG tendered as part of the purchase offer, Nidda BondCo GmbH issued the Second SUN Bond with a volume of €250.0 million on December 4, 2018 and December 13, 2018. In addition, Nidda Healthcare GmbH received an additional loan under the syndicated loan agreement with a total nominal amount of €705 million on November 27, 2018 ("Facility D"). Conversely, cash flow from financing activities includes payments of €1,447.0 million made in connection with the delisting tender offer as a change in minority interests. Furthermore, in the second quarter of 2018, a bond issued by STADA Arzneimittel AG in the amount of €347.1 million took place and was repayed according to schedule.

In the previous year, the development of cash flow from financing activities was influenced by the financing measures—particularly the drawing of the first loan facilities under the syndicated loan agreement—in connection with the acquisition of STADA Arzneimittel AG. Additionally, Nidda BondCo GmbH issued the SSN Bond with a nominal value of €735.0 million and Nidda Healthcare Holding GmbH issued the First SUN Bond with a nominal volume of €340.0 million. In addition, in 2017 the loan in the amount of €1,002.7 million issued by Nidda Midco S.à.r.l was included in cash flow from financing activities.

Payments for dividend distributions amounted to €4.5 million (previous year: €15.6 million). They relate primarily to the dividend paid to the non-controlling shareholders of STADA Arzneimittel AG for financial year 2017.

Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to €–68.9 million in financial year 2018 (previous year: €2,393.8 million).

Cash pursuant to IAS 7 is made up of cash and cash equivalents.

Free cash flow, adjusted for effects from payments for significant investments and acquisitions and effects of proceeds from significant disposals is calculated as follows:

in € k	2018	2017
Cash flow from operating activities . . . . .	231,380	71,958
Cash flow from investing activities . . . . .	–300,284	–2,465,761
+ payments for investments in business combinations in accordance with IFRS 3 . . . . .	–19,185	2,434,527
+ payments for significant investments in intangible assets for the short-term expansion of the product portfolio . . . . .	255,384	12,145
– proceeds from disposals in significant disinvestments . . . . .	375	1,000
– proceeds from disposals in consolidated companies . . . . .	6,225	—
<b>Adjusted free cash flow . . . . .</b>	<b>160,695</b>	<b>51,869</b>

### 44. Contingent liabilities

Contingent liabilities describe possible obligations to third parties based on past events but which will not become manifest until the occurrence of one or more uncertain future events, which are not under Nidda's control. As of the balance sheet date, these contingent liabilities were considered improbable and are therefore not accounted. In addition, there are also contingent liabilities for current obligations, for which however the associated outflow of resources is not considered probable or the amount of the obligation cannot be adequately estimated.

## Notes (Continued)

### 44. Contingent liabilities (Continued)

Contingent liabilities relate, among other things, to patent risks for certain active pharmaceutical ingredients and associated pending or impending proceedings. The resulting possible obligations amounted to approximately €31.0 million (previous year: €11.6 million). The development as compared to the previous year is mainly due to a change in the assessment of the level of anticipated outflows of resources for patent risks already existing in the previous year in the amount of €21.7 million. In addition, possible obligations resulting from a ban on economic activities between Russia and Ukraine no longer apply.

Provisions were not created for contingent liabilities as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be short-term.

### 45. Other financial obligations

In addition to the contingent liabilities, there are also other future financial obligations, which can be broken down as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Operating lease liabilities . . . . .	48,743	54,861
Other financial obligations . . . . .	84,408	135,541
<b>Total . . . . .</b>	<b>133,151</b>	<b>190,402</b>

Liabilities from operating leases relate, among other things, to IT equipment and vehicles. In addition, there are liabilities from long-term rental agreements for office buildings with an average contract term of 5 years (previous year: 5 years).

Total future minimum leasing payments based on operating leases amounted to €48.7 million at the end of the financial year (previous year: €54.9 million) and is comprised as follows after their remaining terms:

in € k	Operating leases	
	Dec. 31, 2018	Dec. 31, 2017
Remaining term up to 1 year . . . . .	18,161	21,314
Remaining terms over 1 year to 5 years . . . . .	27,649	31,391
Remaining terms over 5 years . . . . .	2,933	2,156
<b>Total . . . . .</b>	<b>48,743</b>	<b>54,861</b>

Lease payments in the amount of €34.6 million were recognized as an expense in financial year 2018 (previous year: €10.6 million).

Due to a status change of BIOCEUTICALS Arzneimittel AG from a company accounted for using the equity method to a fully consolidated subsidiary as of September 30, 2018, the guarantee amounting to €25.0 million towards Hospira Inc., Lake Forest, Illinois, USA, in connection with a supply agreement between Hospira and the shares in the associate BIOCEUTICALS Arzneimittel AG as of December 31, 2018 is not included in other financial liabilities anymore (previous year: €25.0 million).

Other financial obligations include long-term obligations for logistics services. In addition, bona fide contingent liabilities in the amount of €28.3 million in Spain, Belgium and the United Kingdom and further guarantees assumed are included in other financial liabilities.



## Notes (Continued)

### 46. Disclosures about financial instruments

#### 46.1. Carrying amounts, valuation rates and fair values in accordance with valuation categories

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are used for the valuation categories pursuant to IFRS 9: AC (at amortized cost) refers to loans and receivables, FVPL (fair value through profit and loss), FVOCI (fair value through other comprehensive income), AC (financial liabilities measured at amortized cost).

in T €	Carrying amount Dec 31, 2018	Valuation categories under IFRS 9	Recognition in accordance with IFRS 9		Fair value recognized through profit and loss	Recognition under IAS 17	Fair value Dec. 31, 2018
			Amortized cost	Fair value recognized in equity			
<b>Assets</b>							
Cash and cash equivalents . . . . .	360,749	AC	360,749	—	—	—	360,749
Trade accounts receivable:							
at amortized cost . . . . .	503,902	AC	503,902	—	—	—	503,902
at fair value through other comprehensive income . . . . .	12,109	FVOCI	—	12,109	—	—	12,109
Other financial assets:							
at amortized cost . . . . .	11,341	AC	11,341	—	—	—	11,341
Derivative financial assets . . . . .	—	—	—	—	—	—	—
Derivative financial assets with hedging relationship . . . . .	1,850	n/a	—	—	1,850	—	1,850
Derivative financial assets without hedging relationship . . . . .	387	FVPL	—	—	387	—	387
<b>Liabilities</b>							
Trade accounts payable . . . . .	320,913	AC	320,913	—	—	—	320,913
Liabilities to banks . . . . .	2,363,054	AC	2,363,054	—	—	—	2,470,133
Promissory note loans . . . . .	182,321	AC	182,321	—	—	—	183,499
Bonds . . . . .	1,584,370	AC	1,584,370	—	—	—	1,518,351
Liabilities from donation and profit and loss transfer agreements . . . . .	294,253	AC	294,253	—	—	—	294,253
Financial liabilities to shareholders . . . . .	1,015,990	AC	1,015,990	—	—	—	1,114,304
Liabilities financial leasing . . . . .	4,012	n/a	—	—	—	4,012	4,012
Derivative financial liabilities with hedge accounting . . . . .	80	n/a	—	—	80	—	80
Derivative financial liabilities without hedge accounting . . . . .	3,687	FVPL	—	—	3,687	—	3,687
Other financial liabilities . . . . .	224,370	AC	224,370	—	—	—	224,370
<b>Thereof, aggregated by valuation categories under IFRS 9</b>							
Financial assets measured at amortized cost . . . . .	875,992	AC	875,992	—	—	—	875,992
Financial assets FVOCI . . . . .	12,109	FVOCI	—	12,109	—	—	12,109
Financial liabilities measured at amortized cost . . . . .	5,985,271	AC	5,985,271	—	—	—	6,125,823

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are used for the valuation categories pursuant to IAS 39: LaR refers to loans and receivables, HtM refers to held-to-maturity investments, AfS refers to

## Notes (Continued)

### 46. Disclosures about financial instruments (Continued)

available-for-sale financial assets, FAHfT refers to financial assets held for trading, FLHfT refers to financial liabilities held for trading and FLAC refers to financial liabilities measured at amortized cost.

in € k	Carrying amount Dec. 31, 2017	Valuation categories under IAS 39	Recognition in accordance with IAS 39			Recognition under IAS 17	Fair value Dec. 31, 2017
			Amortized cost	Fair value recognized in equity	Fair value recognized through profit and loss		
<b>Assets</b>							
Cash and cash equivalents . . . . .	474,777	LaR	474,777	—	—	—	474,777
Trade accounts receivable . . . . .	520,441	LaR	520,441	—	—	—	520,441
Derivative financial assets with hedging relationship . . . . .	678	n/a	—	—	678	—	678
Other financial assets . . . . .	10,217	LaR	10,217	—	—	—	10,217
<b>Liabilities</b>							
Trade accounts payable . . . . .	341,624	FLAC	341,624	—	—	—	341,624
Liabilities to banks . . . . .	442,499	FLAC	442,499	—	—	—	534,545
Promissory note loans . . . . .	535,743	FLAC	535,743	—	—	—	526,000
Bonds . . . . .	1,716,443	FLAC	1,716,443	—	—	—	1,741,123
Financial liabilities to shareholders . . . . .	1,002,666	FLAC	1,002,666	—	—	—	1,496,963
Liabilities financial leasing . . . . .	3,419	n/a	—	—	—	3,419	3,419
Derivative financial liabilities with hedging relationship . . . . .	1,244	n/a	—	—	1,244	—	1,244
Derivative financial liabilities without hedging relationship . . . . .	450	FLHfT	—	—	450	—	450
Other financial liabilities . . . . .	214,472	FLAC	214,472	—	—	—	214,472
<b>Thereof, aggregated by valuation categories under IAS 39</b>							
Loans and receivables . . . . .	1,005,435	LaR	1,005,435	—	—	—	1,005,435
Financial assets held for trading . . . . .	—	FAHfT	—	—	—	—	—
Financial liabilities measured at amortized cost . . . . .	4,253,446	FLAC	4,253,446	—	—	—	4,854,726
Financial liabilities held for trading . . . . .	450	FLHfT	—	—	450	—	450

Since cash and cash equivalents as well as trade accounts receivable mainly have short residual terms, their carrying amounts as of the closing date correspond approximately to their fair value.

Deviations of the fair values from the carrying amounts occur as shown in the chart above in the case of promissory note loans, bonds, liabilities to banks as well as liabilities to shareholders. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values for liabilities to credit institutes.

The fair values of remaining financial receivables and of financial investments held until maturity with a remaining term of less than one year correspond to the present values of the payments connected with the assets taking into consideration the respective current interest parameters that reflect market and partner-related changes in the conditions and expectations. Trade accounts payable as well as remaining financial liabilities also regularly have short remaining terms so that the recognized values approximate the fair values.

## Notes (Continued)

### 46. Disclosures about financial instruments (Continued)

The chart below shows how the valuation rates of financial instruments measured at fair value were determined for the respective valuation categories of financial instruments:

Fair values by levels of hierarchy in € k on a recurring basis	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Financial assets (FVOCI)						
• Factorable receivables . . . . .	—	—	12,109	n/a	—	—
Financial assets held for trading (FAHfT)						
• currency forwards . . . . .	—	—	387	—	—	—
Derivative financial Assets with a hedge relationship						
• fair value hedges . . . . .	—	—	1,850	678	—	—
Financial liabilities held for trading (FLHfT)						
• currency forwards . . . . .	—	—	15	6	—	—
• interest rate swaps . . . . .	—	—	3,672	444	—	—
Derivative financial liabilities with a hedge relationship						
• fair value hedges . . . . .	—	—	80	1,244	—	—

In the context of the preparation of the financial statements, the allocation to the respective hierarchy levels is reviewed according to information available on the determination of the fair values. If a need for reclassification is determined, the reclassification is carried out as of the beginning of the reporting period. In the financial year, there were no reclassifications among the respective hierarchy levels.

The fair values are analyzed in the context of the preparation of the financial statements. For this purpose, market comparisons and change analyses are carried out.

Derivative financial assets (FVPL) and derivative financial liabilities (FVPL) include positive or negative market values of derivative financial instruments (currency swaps and interest rate swaps, in the previous year currency and interest swaps) not part of a hedging relationship. The fair values of currency forwards are determined using financial mathematics based on current market data provided by a reputable information service, such as spot exchange rates or swap rates, in one system according to standardized procedures. In the previous year, the fair values were determined using appropriate valuation models by external third parties.

In the Group, currency forwards (EUR/RUB), (EUR/DKK), (EUR/CHF), (EUR/USD) and (EUR/GBP) are designated as fair value hedges that are concluded to hedge the currency risks from intercompany loans with companies that keep their accounting in a local currency other than euros. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective.

## Notes (Continued)

### 46. Disclosures about financial instruments (Continued)

In financial year 2018, no financial assets and liabilities allocated to hierarchy level 3 and recognized at fair value existed. Financial assets and liabilities allocated to hierarchy level 3 and recognized at fair value developed as follows in the previous year:

in € k	Financial assets measured at fair value	Financial liabilities measured at fair value
<b>Balance at April 18, 2017</b> . . . . .	—	—
Additions through business combinations according to IFRS 3 . . . . .	—	–1,477
Reclassification from level 2 . . . . .	—	—
Currency changes . . . . .	—	—
Total income . . . . .	—	627
• recognized through profit and loss . . . . .	—	2,511
• recognized in equity . . . . .	—	—
Additions . . . . .	—	—
Realizations . . . . .	—	850
Reclassification in level 2 . . . . .	—	—
<b>Balance at December 31, 2017</b> . . . . .	—	—
<b>Income recognized in the income statement</b> . . . . .	—	<b>627</b>
Other earnings/other expenses . . . . .	—	579
thereof		
• attributable to assets/liabilities held as of the balance sheet date . . . . .	—	—
Financial result . . . . .		48
thereof		
• attributable to assets/liabilities held as of the balance sheet date . . . . .	—	—

### 46.2. Net earnings from financial instruments by valuation category

Net earnings recognized through profit or loss from financial assets and liabilities can be broken down as follows:

Net earnings by valuation category in € k	From interest and dividends	From subsequent measurement at fair value	Currency translation	Value adjustment	from disposals	Net earnings Dec. 31, 2018	Dec. 31, 2017
Financial assets at amortized cost	2,079	—	–11,098	–4,917	—	–13,936	3,050
Financial assets (FVOCI) . . . . .	–1,564	—	—	—	—	–1,564	—
Financial assets held for trading (FVPL) . . . . .	–576	1,070	—	—	678	1,172	5,040
Financial liabilities measured at amortized cost . . . . .	–305,255	—	4,188	—	—	–301,067	–64,298
Financial liabilities held for trading (FVPL) . . . . .	–1,461	–9,224	—	—	–5,999	–16,684	3,242
<b>Total</b> . . . . .	<b>–306,777</b>	<b>–8,154</b>	<b>–6,910</b>	<b>–4,917</b>	<b>–5,321</b>	<b>–332,079</b>	<b>–52,426</b>

The disclosure of interest from financial instruments is made in financial income and financial expenses in the interest result. Dividends received are disclosed in investment income. With the exception of the valuation results from interest rate swaps, and/or currency swaps recognized at fair value through profit or loss, which are reported under financial income or financial expenses and partially also in the currency translation result, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate to the fulfillment currency swaps.

## Notes (Continued)

### 46. Disclosures about financial instruments (Continued)

#### Total interest income and expenses for financial instruments not measured at fair value through profit and loss

In k€	2018
<b>Interest income</b>	
• from financial assets measured at amortized costs . . . . .	2,079
<b>Interest expenses</b>	
• from financial liabilities measured at amortized costs . . . . .	305,255

### 46.3. Factoring

#### Factoring transactions with the transfer of essentially all opportunities and risks

There are revolving receivable selling agreements with banks and financial institutes (together “receivables buyers”) with the transfer of essentially all opportunities and risks for two agreements without a general purchase limit and for one agreement with a purchase limit of €17.5 million. The agreements have an unlimited term with regular termination possibilities, whereby Nidda is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). In return for a fixed program fee recognized in expenses at the time of derecognition, both risks are fully transferred to the buyer of the receivable. The nominal volume of receivables sold but not yet paid under the factoring agreements amounted to €38.0 million on the reporting date.

#### Factoring transactions with distribution of essential opportunities and risks for which control of the asset remains with the Nidda Group

There are factoring agreements pursuant to which, on a revolving basis, trade accounts receivable up to a total general purchase limit of €135.6 million are sold to banks and financial institutes. The agreements have an unlimited term with regular termination possibilities, whereby the Nidda Group is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). The credit risk is partially transferred to the buyer of the receivable. The late payment risk continues to be borne in its entirety. The maximum credit risk to be borne, translated into euro, amounted to €1.3 million as of the reporting date. The other credit-risk related defaults are assumed by the buyer. The late payment risk continues to be borne in its entirety by the Group. The maximum risk of loss for the Group resulting from the credit risk and the late payment risk from the receivables sold as of the reporting date, translated into euro, amounted to €1.4 million. The nominal volume of receivables sold but not yet paid under the factoring agreements, translated into euro, amounted to €51.7 million on the reporting date. The ongoing commitment of the Group as of December 31, 2018, translated into euro, amounted to €1.4 million and the carrying amount of the associated liability, translated into euro, amounted to €1.4 million.

### 47. Risk management and derivative financial instruments

#### 47.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Management in the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Management must first be approved by the Management. The Management is also regularly informed of the nature, scope and amount of current risks.

#### 47.2. Currency risks

The balance sheet and Group currency is the euro. Due to the international alignment of business activities, the Group is subject to risks arising from exchange rate fluctuations.



## Notes (Continued)

### 47. Risk management and derivative financial instruments (Continued)

On the one hand, these risks consist of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency as a result of exchange rate fluctuation (transaction risk).

However, the Group is only subject to this risk to a limited extent, as the company counters currency risks through, alongside natural hedges, the use of derivative financial instruments. These are used to hedge currency risks from operating activities, financial transactions and investments. In the reporting year, use was made of foreign-exchange futures contracts and interest/currency swaps. The maturity dates of futures contracts are adjusted to the term of the underlying transactions. The remaining term of the contracts is currently up to one year.

In the context of the Consolidated Financial Statements, on the other hand, exchange rate fluctuations lead to an accounting effect as a result of the conversion of the balance sheet items as well as the conversion of earnings and expenses of international Group companies with a different functional currency than euro (translation risk). The appreciation of the euro as compared to the other currencies is generally negative and depreciation is generally positive.

Determined quantitative disclosures were made on risks in connection with currency changes by means of aggregating all of the Group companies' foreign currency items that are not denominated in the respective Group company's functional currency. In the case of hedging transactions, they are compared with the balances of assets or equity and liabilities from the aggregation. This results in the subsequent material outstanding foreign currency items as of the respective reporting dates, which in case of a change to the foreign currency item due to a 10% appreciation or a 10% devaluation of the euro in comparison with the respective functional currency are as follows:

in € k	Dec. 31, 2018		
	British pound	Serbian dinar	Ukrainian hryvnia
Outstanding foreign currency item . . . . .	- 295,882	24,575	- 23,193
Income (+) / expense (-) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	30,023	2,458	- 2,319
Income (+) / expense (-) from a depreciation of the euro in comparison to the respective functional currency by 10% . . . . .	- 30,023	- 2,458	2,319
Equity increase (+) / equity reduction (-) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	27,366	- 15,325	- 1,862
Equity increase (+) / equity reduction (-) from a depreciation of the euro in comparison to the respective functional currency by 10% . . . . .	- 27,366	15,325	1,862
in € k	Dec. 31, 2017		
	Kazakhstani tenge	US dollar	Ukrainian hryvnia
Outstanding foreign currency item . . . . .	+ 13,574	- 31,264	+ 9,901
Income (+) / expense (-) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	- 1,661	+ 3,126	- 2,444
Income (+) / expense (-) from a depreciation of the euro in comparison to the respective functional currency by 10% . . . . .	+ 1,661	- 3,126	+ 2,444
Equity increase (+) / equity reduction (-) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	- 2,178	+ 3,126	- 1,968
Equity increase (+) / equity reduction (-) from a depreciation of the euro in comparison to the respective functional currency by 10% . . . . .	+ 2,178	- 3,126	+ 1,968

In this regard, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

## Notes (Continued)

### 47. Risk management and derivative financial instruments (Continued)

The outstanding foreign currency items British pounds relate to a balance from foreign currency holdings from German and international Group companies in British pounds and outstanding foreign currency reserves in euro. For the Serbian dinar this relates to a balance from foreign currency holdings at international Group companies in euro. The outstanding foreign currency reserves in Kazakhstani tenge and Ukrainian hryvnia relate to a balance from international Group companies in euro and outstanding foreign currency reserves in Kazakhstani tenge and Ukrainian hryvnia. The reported outstanding foreign currency positions in US dollars relate exclusively to foreign currency holdings in US dollars at German and international Group companies. The risk in connection with the outstanding foreign currency reserves in euro, from the Group's perspective, results from the functional currency of the respective international Group company. Overall, based on outstanding foreign currency items as of the reporting date, an appreciation or a devaluation of the respective functional currency by 10% compared to the currencies of relevance for the Group would have led to an effect on earnings in the amount of an expense of €25.9 million (previous year: €2.2 million) or in the amount of earnings of €25.9 million (previous year: €2.2 million).

#### 47.3. Interest rate risks

Interest risks from the investment of financial assets as well as financial debts, stand primarily in Euro.

In 2018, an average of 47% (previous year: 87%) of financial liabilities denominated in euro had fixed interest rates. Currently there are no cash flow hedges in the form of interest rate swaps.

Existing interest rate risks are calculated using sensitivity analyses, which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as equity. The following factors—if relevant—are generally included in the calculation:

- Changes in the market interest rate of original financial liabilities with variable interest rates that are not hedged against interest rate risks, and
- Changes in the market interest rate of interest derivatives not part of a hedging relationship.

in € million	Dec. 31, 2018	Dec. 31, 2017
Income (+) / expense (–) from an increase in the market interest rate level of 100 basis points . . . . .	7.5	12.7
Income (+) / expense (–) from a decrease in the market interest rate level of 100 basis points . . . . .	–2.1	–6.0
Equity increase (+)/equity decrease (–) with an increase in the market interest rate level by 100 base points . . . . .	—	—
Equity increase (+)/equity decrease (–) with a reduction in the market interest rate level by 100 base points . . . . .	—	—

The interest-rate risk is of secondary importance.

#### 47.4. Default risks

The Group is exposed to a default risk in its operating business if contracting parties fail to meet their obligations. Alongside the implementation of appropriate credit management processes, such transactions are generally only concluded with counterparties of impeccable financial standing to avoid default risks in financing activities.

Default risks also exist as a result of the supply of goods and services. Business relations are sought only with partners of impeccable financial standing. In addition, the Group partly uses suitable measures such as guarantees, loan insurances or the transfer of assets to safeguard itself against default risk. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments. Furthermore, there is the risk that in a difficult economic and financial environment, national health care systems delay or fail to make payments to Group companies or business partners of the Group and that, as a result, directly or indirectly increased default risks arise.

## Notes (Continued)

### 47. Risk management and derivative financial instruments (Continued)

The maximum credit default risk is calculated from the carrying amount of the financial assets recognized. In addition, the Group granted guarantees that amounted to a total nominal volume of €29.0 million as of the reporting date (previous year: €63.1 million). Various forms of collateral for credit securities are held, such as mortgages, bank or corporate guarantees, assignments of receivables and pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

#### 47.5. Liquidity risks

Liquidity risks may result, for example, from the loss of existing cash items, lack of availability of credit, reduced access to financing markets or fluctuation in the operational development of business. The goal of liquidity management is to ensure solvency and financial flexibility of the Group at all times by maintaining a sufficient supply of liquidity reserves. Financing is obtained through short-term and long-term borrowings from banks, promissory note loans, bonds and factoring. Furthermore, the Group also has solid operating cash flow.

#### 47.6. Derivative financial instruments and hedging instruments

Currency risks are countered with derivative financial instruments, which are exclusively used to hedge interest and currency risks resulting from operating activities and financial transactions. Derivative financial instruments are neither held nor issued for speculation purposes.

The total volume of currency and interest rate related derivatives is comprised as follows:

in € k	Dec. 31, 2018		Dec. 31, 2017	
	Nominal value	Fair Value	Nominal value	Fair Value
<b>Derivatives without hedging relationship</b>				
Interest rate swaps . . . . .	500,000	– 3,672	500,000	– 444
Currency swaps . . . . .	10,556	372	771	– 6
<b>Derivatives with hedging relationship</b>				
Currency swap . . . . .	68,422	1,770	161,448	– 566
<b>Total . . . . .</b>	<b>578,978</b>	<b>– 1,532</b>	<b>662,219</b>	<b>– 1,016</b>

In the Group, currency forwards (EUR/RUB), (EUR/DKK), (EUR/CHF), (EUR/USD) and (EUR/GBP) are designated as fair value hedges that are concluded to hedge the currency risks from inter-company loans with companies that keep their accounting in a local currency other than euros. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective. In the reporting period, new fair value hedges with a nominal volume totaling €681.5 million were designated for reduction of the fair value risk. As of December 31, 2018, currency derivatives with a net fair value of €1,770k (previous year: €-566k) were designated as hedging instruments within the scope of fair value hedges. Losses recognized in currency translation result in financial year 2018 of €4,088k resulted from the carrying amount adjustment of the hedged item (previous year: €863k), from changes in fair values of the

## Notes (Continued)

### 47. Risk management and derivative financial instruments (Continued)

spot component of hedging transactions, profits of €4,088k (previous year: €863k) were recognized in the currency translation result.

Hedging of currency risk in k €	Remaining up to 1 year	Sum of nominal amounts Dec. 31, 2018	Sum of nominal amounts Dec. 31, 2017	Average hedging rate / price
currency forwards RUB	10,556	10,556	771	77.7599
currency swaps RUB	49,068	49,068	109,029	77.4443
currency swaps CHF	11,496	11,496	15,461	1.1308
currency swaps GBP	3,968	3,968	1,128	0.9072
currency swaps USD	—	—	33,143	—
currency swaps AUD	1,206	1,206	—	1.6586
currency swaps DKK	2,684	2,684	2,688	7.4514

There are stand-alone interest rate derivatives with a nominal volume of €500.0 million for which no underlying transaction has been designated.

Hedging of interest risk in k €	Remaining up to 1 year	Remaining up to 1–5 years	Sum of nominal amounts Dec. 31, 2018	Sum of nominal amounts Dec. 31, 2017	Average hedging rate / price
Interest swap	—	500,000	500,000	—	0.3160

Hedging of currency risk in k €	Carrying amount Dec. 31, 2018	Balance sheet item Dec. 31, 2018	Fair value adjustments for measurement of inefficiencies Dec. 31, 2018	Nominal amount Dec. 31, 2018
currency forwards				
—derivative assets	1,850	other financial assets	—	15,465
—derivative liabilities	–80	other financial liabilities	—	52,957

#### 47.7. Disclosures on capital management

The objectives of the capital management are the safeguarding of the business operations, the creation a solid equity base for financing profitable growth as well as dividend payments and the capital service. The capital management consistently aims for the Group companies to have an equity basis that corresponds to the local requirements. When implementing and checking the Group's capital and liquidity the legal requirements are taken into account.

Net debt, which results from current and non-current financial liabilities minus cash and cash equivalents is an important key figure for capital management. Net debt was as follows:

in € k	Dec. 31, 2018	Dec. 31, 2017
Non-current financial liabilities	4,972,080	2,404,316
Current financial liabilities	467,908	1,293,035
<b>Gross debt</b>	<b>5,439,988</b>	<b>3,697,351</b>
Cash, cash equivalents, and securities classified as available-for-sale	360,749	474,777
<b>Net debt</b>	<b>5,079,239</b>	<b>3,222,574</b>

### 48. Related party transactions

In the scope of the ordinary course of business Nidda German Topco GmbH and/or its consolidated companies have entered into related party transactions. In accordance with IAS 24, "Related parties" refers to directly or indirectly controlled subsidiaries that are not consolidated due to lack of material significance, associates and joint ventures as well as affiliated companies and persons in key positions and their close relatives. In principle, all trades were settled with related companies and natural persons at market-rate conditions.

## Notes (Continued)

### 48. Related party transactions (Continued)

#### 48.1. Transactions with related parties

Intertrust (Deutschland) GmbH provides services in the field of management in key positions, since Intertrust supplies a managing director of Nidda German Topco GmbH and provides administrative services. The amounts for these management and administrative services are listed in Note 49. Members of the boards of STADA Arzneimittel AG are considered as persons in key positions of Nidda German Topco GmbH as well, and their remuneration is also summarized in the form of quantitative disclosures under Note 49.

#### 48.2. Transactions with related companies

Bain Capital Investors, LLC, Wilmington, Delaware, USA, and Cinven (Luxco 1) S.A., Luxembourg, exercise direct joint control over the indirect subsidiary Nidda Topco S.à.r.l., which in turn holds controlling interest in Nidda German Topco GmbH via its subsidiary Nidda Midco S.à.r.l. The direct subsidiary of Cinven (Luxco 1) S.A., Cinven Capital Management (VI) General Partner Limited, St. Peter Port, Guernsey, is the fund manager for certain entities of the Sixth Cinven Fund in the sense of an investment management company.

Trade accounts payable of the Nidda Group essentially relate to related party transactions as follows:

<u>in € k</u>	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
<b>Trade accounts receivable</b>		
Non-consolidated subsidiaries . . . . .	–9	23
Non-consolidated joint ventures . . . . .	178	169
Associates . . . . .	1,112	878
Joint ventures . . . . .	—	—
<b>Other financial receivables</b>		
Non-consolidated subsidiaries . . . . .	10	9
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—
<b>Trade accounts payable</b>		
Non-consolidated subsidiaries . . . . .	29	9
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	1,779	3,229
Joint ventures . . . . .	—	—
<b>Other financial liabilities</b>		
Non-consolidated subsidiaries . . . . .	1,600	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—



## Notes (Continued)

### 48. Related party transactions (Continued)

Expenses and income of the Nidda Group essentially relate to related party transactions as follows:

in € k	2018	2017
<b>Sales</b>		
Non-consolidated subsidiaries . . . . .	—	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	2,217	672
Joint ventures . . . . .	—	—
<b>Interest income</b>		
Non-consolidated subsidiaries . . . . .	—	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—
<b>Interest expense</b>		
Non-consolidated subsidiaries . . . . .	—	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—

In addition, there are business relationships between Nidda and other investments of Bain Capital and Cinven, from which outstanding trade accounts payable in the amount of €0.5 million arise as of the balance-sheet date December 31, 2018 (previous year: €0.4 million). The transaction volume with these companies amount to €5.8 million in 2018 (previous year: €2.7 million) and mainly relate to services.

In addition, the following disclosures on related party transactions are made: As of December 31, 2018, Nidda German Topco GmbH reports a loan payable in the amount of €1,016.0 million (previous year: €1,002.7 million) to Nidda Midco S.à.r.l. Luxembourg with an interest rate of 5.0% p.a. and a term of 10 years. Moreover, there is €50.8 million in deferred interest in this context as at December 31, 2018 (previous year: €13.3 million). In addition, €9.3 million in costs were passed on by Bain Capital and Cinven in the financial year (previous year: €41.9 million).

### 49. Remuneration of the Management in Key Positions

In summary, the following disclosures regarding the remuneration of persons in key positions are made according to IAS 24 in consideration of the disclosure requirements of Section 314 (1) No. 6a Sentence 1-4 HGB:

in € k	Ongoing performance-related and non-performance related remuneration—current		Ongoing performance-related remuneration—non-current		Payments due to termination of the employment relationship		Expenses for pension commitments earned in the current year		Total remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Members of the Executive Board . . . .	3,786 <sup>16</sup>	1,604 <sup>17</sup>	—	—	1,900	1,496	—	—	5,686	3,100
Members of the Supervisory Board . .	786 <sup>18</sup>	267 <sup>19</sup>	—	—	—	—	—	—	786	267

As of December 31, 2018, there were outstanding liabilities to members and former members of the Executive Board of STADA Arzneimittel AG in the amount of €1.0 (previous year: €0.7 million).

<sup>16</sup> Thereof €363 k performance-related, €3,423 k non-performance related.

<sup>17</sup> Thereof €100 k performance-related, €1,504 k non-performance related.

<sup>18</sup> Thereof €316 k performance-related, € 457 k non-performance related.

<sup>19</sup> Thereof €85 k performance-related, €182 k non-performance related.

## Notes (Continued)

### 49. Remuneration of the Management in Key Positions (Continued)

Remuneration to former members of the Executive Board of STADA Arzneimittel AG amounted to a total of €1,900k in financial year 2018.

There were no loans granted to members of the Executive Board and Supervisory Board at STADA Arzneimittel AG as of the reporting date. Nor has STADA taken on any contingent liabilities for the benefit of the members of governing bodies of STADA Arzneimittel AG.

For the management and administrative services of Intertrust (Germany) GmbH, a fee was paid in the amount of €161 k in the financial year.

### 50. Fees for the auditor

For the services provided by the auditor PricewaterhouseCoopers GmbH, the following fees were recognized as expenses in financial year 2018 and the previous year, respectively.

in € k	2018	2017
Fees for the auditor . . . . .	2,115	1,626
• thereof for audits . . . . .	892	586
• thereof for other confirmation services . . . . .	954	—
• thereof for other services . . . . .	269	993
• thereof for tax consultancy services . . . . .	—	47

The fees for audits relate to payments for the audit of the Consolidated Financial Statements of Nidda German Topco GmbH.

### 51. Corporate Governance

For STADA Arzneimittel AG as a listed company, the declaration on the German Corporate Governance Code prescribed by Section 161 of the German Stock Corporation Act, was last issued by the Executive Board and the Supervisory Board of STADA Arzneimittel AG in December 2018. The declaration is publicly available via the Company's website ([www.stada.com/de](http://www.stada.com/de) in German or [www.stada.com](http://www.stada.com) in English).

### 52. Events after the end of the financial year

After the closing date, the following events with significant or possibly significant effects on the net assets, financial position and results of operations occurred:

On December 20, 2018, STADA announced that STADA and certain of its significant subsidiaries—in accordance with the directive issued by Nidda Healthcare GmbH—had granted certain in rem securities to secure capital market liabilities and other financial liabilities, which were raised or guaranteed by Nidda Healthcare GmbH and its affiliated companies and for which these securities were accepted.<sup>20</sup> The grant of such in rem securities will give holders of the STADA Bond 2015/2022 the right to demand repayment of their principal and accrued interest on such STADA Bonds. On January 8, 2019, STADA published the relevant tender offer, whose final expiration date is currently June 19, 2019.<sup>21</sup>

Bad Vilbel, March 13, 2019



Mark Keatley  
Managing Director



Andreas Grundhöfer  
Managing Director

<sup>20</sup> See STADA Arzneimittel press release of December 20, 2018.

<sup>21</sup> See [www.stada.de/investor-relations/anleihen/anleihe-2015/disclaimer.html](http://www.stada.de/investor-relations/anleihen/anleihe-2015/disclaimer.html).

The following auditor's report (*Bestätigungsvermerk*) has been issued in accordance with Section 322 German Commercial Code (*Handelsgesetzbuch*) on the consolidated financial statements and the group management report (*Konzernlagebericht*) of Nidda German Topco GmbH as of and for the fiscal year ended December 31, 2018. The group management report is neither included nor incorporated by reference in this offering memorandum.

## INDEPENDENT AUDITOR'S REPORT

To Nidda German Topco GmbH, Bad Vilbel

### Audit Opinions

We have audited the consolidated financial statements of Nidda German Topco GmbH, Bad Vilbel, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 through December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report of Nidda German Topco GmbH, Bad Vilbel, for the financial year from January 1 through December 31, 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [*Handelsgesetzbuch*: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

### Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with provisions under German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

### Other Information

The executive directors are responsible for the other information. The other information comprises the annual report—excluding further cross-references to external information—, with the exception of the audited consolidated financial statements, the audited group management report as well as our auditor's report. Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

### **Responsibility of the Executive Directors for the Consolidated Financial Statements and the Group Management Report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of accounting estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Frankfurt am Main, March 13, 2019

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

[sgd. Dr. Bernd Roese]  
Wirtschaftsprüfer  
(German Public Auditor)

[sgd. ppa. Katrin Blumert]  
Wirtschaftsprüferin  
(German Public Auditor)



**CONSOLIDATED FINANCIAL STATEMENTS OF STADA ARZNEIMITTEL AG  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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## Consolidated Income Statement

Consolidated Income Statement in k €	2018	2017	Note
Sales . . . . .	2,330,824	2,313,928	11.
Cost of sales . . . . .	1,139,493	1,177,994	12.
<b>Gross profit . . . . .</b>	<b>1,191,331</b>	<b>1,135,934</b>	
Selling expenses . . . . .	538,587	514,478	13.
General and administrative expenses . . . . .	183,714	199,701	14.
Research and development expenses . . . . .	72,256	67,471	15.
Other income . . . . .	84,380	41,265	16.
Other expenses . . . . .	103,104	203,260	17.
<b>Operating profit . . . . .</b>	<b>378,050</b>	<b>192,289</b>	
Result from investments measured at equity . . . . .	3,722	2,304	
Investment income . . . . .	43	– 1	
Financial income . . . . .	5,624	3,629	
Financial expenses . . . . .	44,565	50,475	
<b>Financial result . . . . .</b>	<b>– 35,176</b>	<b>– 44,543</b>	18.
<b>Earnings before taxes . . . . .</b>	<b>342,874</b>	<b>147,746</b>	
Income tax expenses . . . . .	32,342	52,985	19.
<b>Earnings after taxes . . . . .</b>	<b>310,532</b>	<b>94,761</b>	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income) . . . . .	306,927	85,323	
• distributable to non-controlling shareholders . . . . .	3,605	9,438	20.
Profit transfer to Nidda Healthcare GmbH . . . . .	134,189	—	
Earnings per share in €(basic/diluted) . . . . .	4.93	1.37	21.

## Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income in k €	2018	2017	Note
<b>Earnings after taxes</b> . . . . .	<b><u>310,532</u></b>	<b><u>94,761</u></b>	
<b>Items to be recycled to the income statement in future:</b>			
<b>Currency translation gains and losses</b> . . . . .	<b><u>– 45,380</u></b>	<b><u>– 58,987</u></b>	35.
thereof			
• income tax expenses . . . . .	397	– 4,250	19.
<b>Gains and losses on financial assets (FVOCI)</b> . . . . .	<b><u>23</u></b>	<b><u>—</u></b>	47.
thereof			
• income tax expenses . . . . .	– 11	—	19.
<b>Items not to be recycled to the income statement in future:</b>			
<b>Revaluations of net debt from defined benefit plans</b> . . . . .	<b><u>739</u></b>	<b><u>3,478</u></b>	36.
thereof			
• income tax expenses . . . . .	– 162	– 706	19.
<b>Other comprehensive income</b> . . . . .	<b><u>– 44,618</u></b>	<b><u>– 55,509</u></b>	
thereof			
• attributable to disposal groups held for sale in accordance with IFRS 5 . . . . .	—	– 176	
<b>Consolidated comprehensive income</b> . . . . .	<b><u>265,914</u></b>	<b><u>39,252</u></b>	
thereof			
• distributable to shareholders of STADA Arzneimittel AG . . . . .	261,750	37,985	
• distributable to non-controlling shareholders . . . . .	4,164	1,267	

## Consolidated Balance Sheet

Consolidated Balance Sheet in k €	Dec. 31, 2018	Dec. 31, 2017	Note
<b>Assets</b>			
<b>Non-current assets</b>	<b>2,113,845</b>	<b>1,880,574</b>	
Intangible assets	1,707,205	1,474,342	24.
Property, plant and equipment	351,467	332,738	25.
Financial assets	2,281	1,978	26.
Investments measured at equity	24,568	41,528	27.
Other financial assets	823	1,087	30.
Other assets	1,164	1,330	31.
Deferred tax assets	26,337	27,571	
<b>Current assets</b>	<b>1,446,281</b>	<b>1,323,952</b>	
Inventories	515,251	499,012	32.
Trade accounts receivable	516,011	520,441	28.
Return assets	620	—	29.
Income tax receivables	8,545	14,346	
Other financial assets	12,755	9,809	30.
Other assets	49,255	35,323	31.
Cash and cash equivalents	343,794	243,194	33.
Non-current assets and disposal groups held for sale	50	1,827	34.
<b>Total assets</b>	<b>3,560,126</b>	<b>3,204,526</b>	
<b>Equity and liabilities</b>			
<b>Equity</b>	<b>1,177,985</b>	<b>1,006,406</b>	<b>35.</b>
Share capital	162,090	162,090	35.1.
Capital reserve	514,206	514,206	35.2.
Retained earnings including net income	858,606	717,364	35.3.
Other reserves	— 475,941	— 430,013	35.4.
Treasury shares	— 1,403	— 1,405	35.5.
<b>Equity attributable to shareholders of the parent</b>	<b>1,057,558</b>	<b>962,242</b>	
Shares held by non-controlling shareholders	120,427	44,164	35.6.
<b>Non-current borrowings</b>	<b>1,102,439</b>	<b>157,572</b>	
Other non-current provisions	33,490	35,293	36.
Financial liabilities	978,386	816	37.
Other financial liabilities	4,168	4,032	40.
Other liabilities	2,460	950	41.
Deferred tax liabilities	83,935	116,481	
<b>Current borrowings</b>	<b>1,279,702</b>	<b>2,040,548</b>	
Other provisions	22,543	23,507	42.
Financial liabilities	444,943	1,257,105	37.
Trade accounts payable	315,080	340,642	38.
Contract liabilities	1,491	—	39.
Income tax liabilities	79,723	69,663	
Other financial liabilities	288,718	226,108	40.
Other liabilities	127,204	123,523	41.
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	—	—	
<b>Total equity and liabilities</b>	<b>3,560,126</b>	<b>3,204,526</b>	

## Consolidated Cash Flow Statement

Consolidated Cash Flow Statement in k €	2018	2017	Note
Net income . . . . .	310,532	94,761	
Depreciation and amortization net of write-ups of non-current assets . . . . .	148,799	169,226	23.
Income tax expenses . . . . .	32,342	52,985	19.
Income tax paid . . . . .	– 46,542	– 56,588	
Interest income and expenses . . . . .	38,941	47,013	18.
Interest and dividends received . . . . .	4,726	3,829	
Interest paid . . . . .	– 46,375	– 45,447	
Result from investments measured at equity . . . . .	– 3,722	– 2,304	27.
Result from the disposal of non-current assets . . . . .	1,421	5,131	16. / 17.
Additions to / reversals of other non-current provisions . . . . .	2,673	8,307	36.
Currency translation income and expenses . . . . .	1,888	1,966	16. / 17.
Other non-cash expenses and gains <sup>1</sup> . . . . .	165,785	279,527	
<b>Gross cash flow . . . . .</b>	<b>610,468</b>	<b>558,406</b>	
Changes in inventories . . . . .	– 44,867	– 64,610	32.
Changes in trade accounts receivable . . . . .	485	– 31,505	28.
Changes in trade accounts payable . . . . .	– 51,511	– 27,009	38.
Changes in other net assets, unless attributable to investing or financing activities <sup>1</sup> . . . . .	– 194,287	– 172,401	
<b>Cash flow from operating activities . . . . .</b>	<b>320,288</b>	<b>262,881</b>	43.
Payments for investments in			
• intangible assets . . . . .	– 280,284	– 70,174	24.
• property, plant and equipment . . . . .	– 48,063	– 54,999	25.
• financial assets . . . . .	– 280	– 270	26.
• business combinations in accordance with IFRS 3 . . . . .	19,185	– 2,854	8.
Proceeds from the disposal of			
• intangible assets . . . . .	1,278	2,311	24.
• property, plant and equipment . . . . .	1,655	3,336	25.
• financial assets . . . . .	—	—	26.
• shares in consolidated companies . . . . .	6,225	6	
<b>Cash flow from investing activities . . . . .</b>	<b>– 300,284</b>	<b>– 122,644</b>	43.
Borrowing of funds . . . . .	944,599	71,326	37.
Settlement of financial liabilities . . . . .	– 820,883	– 250,292	37.
Settlement of finance lease liabilities . . . . .	– 1,699	– 1,350	
Dividend distribution . . . . .	– 8,944	– 46,048	35.
Capital increase from share options . . . . .	—	—	35.
Changes in non-controlling interests . . . . .	– 33,349	– 1,504	35.
Changes in treasury shares . . . . .	2	30	35.
<b>Cash flow from financing activities . . . . .</b>	<b>79,726</b>	<b>– 227,838</b>	43.
<b>Changes in cash and cash equivalents . . . . .</b>	<b>99,730</b>	<b>– 87,601</b>	43.
Changes in cash and cash equivalents due to the scope of consolidation . . . . .	– 40	– 12,920	
Changes in cash and cash equivalents due to exchange rates . . . . .	909	– 8,864	
<b>Net change in cash and cash equivalents . . . . .</b>	<b>100,599</b>	<b>– 109,385</b>	33.
<b>Balance at beginning of the period . . . . .</b>	<b>243,195</b>	<b>352,580</b>	
<b>Balance at end of the period . . . . .</b>	<b>343,794</b>	<b>243,195</b>	

<sup>1</sup> Non-cash additions to accruals for discounts to health insurance organizations in 2018 in the amount of €131.6 million (previous year: €136.5 million) are recognized in gross cash flow and are therefore not included in changes in other net assets.



## Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity in k € 2018	Number of shares	Share capital	Capital reserve	Retained earnings including net income	Currency translation reserve	FVOCI reserve	Treasury shares	Equity attributable to shareholders of the parent	Shares relating to non- controlling shareholders	Group equity
Balance as of Dec. 31, 2018 . .	62,342,440	162,090	514,206	858,606	−475,926	−15	−1,403	1,057,558	120,427	1,177,985
Miscellaneous changes <sup>1</sup> . . . .				−134,189				−134,189		−134,189
Dividend distribution . . . . .				−6,848				−6,848	−3,530	−10,378
Capital increase from share options . . . . .								—		—
Changes in treasury shares . .							2	2		2
Changes in retained earnings .								—		—
Changes in non-controlling interests . . . . .				−23,336				23,336	−8,350	31,686
Changes in the scope of consolidation . . . . .				−306				−306	84,087	83,781
Other comprehensive income .				713	−45,913	23		−45,177	559	−44,618
Net income . . . . .				306,927				306,927	3,605	310,532
<b>Balance as of Jan. 1, 2018,</b> <b>adjusted . . . . .</b>	<b>62,342,440</b>	<b>162,090</b>	<b>514,206</b>	<b>715,645</b>	<b>−430,013</b>	<b>−38</b>	<b>−1,405</b>	<b>960,485</b>	<b>44,056</b>	<b>1,004,541</b>
Adjustments under IFRS 15 . .				446				446		446
Adjustments under IFRS 9 . .				−2,165		−38		−2,203	−108	−2,311
<b>Balance as of Jan. 1, 2018 . .</b>	<b>62,342,440</b>	<b>162,090</b>	<b>514,206</b>	<b>717,364</b>	<b>−430,013</b>	<b>—</b>	<b>−1,405</b>	<b>962,242</b>	<b>44,164</b>	<b>1,006,406</b>
<b>Previous year</b>										
Balance as of Dec. 31, 2017 . .	62,342,440	162,090	514,206	717,364	−430,013	—	−1,405	962,242	44,164	1,006,406
Dividend distribution . . . . .				−44,826				−44,826	−4,009	−48,835
Capital increase from share options . . . . .								—	—	—
Changes in treasury shares . .			17				13	30	—	30
Changes in retained earnings .								—	—	—
Changes in non-controlling interests . . . . .								—	2,746	2,746
Changes in the scope of consolidation . . . . .				13				13	−33,905	−33,892
Other comprehensive income .				3,601	−50,939			−47,338	−8,171	−55,509
Net income . . . . .				85,323				85,323	9,438	94,761
<b>Balance as of Jan. 1, 2017 . .</b>	<b>62,342,440</b>	<b>162,090</b>	<b>514,189</b>	<b>673,253</b>	<b>−379,074</b>	<b>—</b>	<b>−1,418</b>	<b>969,040</b>	<b>78,065</b>	<b>1,047,105</b>

<sup>1</sup> The miscellaneous changes relate to the profit transfer to Nidda Healthcare GmbH, Bad Vilbel.

## Notes to the Consolidated Financial Statements

### General Information

#### 1. Corporate information

STADA Arzneimittel Aktiengesellschaft (STADA Arzneimittel AG) as the parent company of the STADA Group (hereafter referred to as “STADA”), located at Stadastrasse 2-18, 61118 Bad Vilbel, is an internationally-oriented company based in Germany and active throughout the world in the health care and pharmaceuticals markets, especially in the Generics and Branded Products segments.

The Consolidated Financial Statements of STADA Arzneimittel AG for financial year 2018 were approved for publication by the Executive Board on March 13, 2019.

#### 2. Basis of preparation of the financial statements

The Consolidated Financial Statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2018, were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC), as applicable in the European Union (EU), as well as in accordance with the supplementary provisions pursuant to Section 315a (1) of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. The individual financial statements of the companies included in the scope of consolidation are prepared as of the same date as the Consolidated Financial Statements.

The structure of the consolidated income statement follows the cost-of-sales method, according to which expenses incurred in generating sales are divided into functional areas. In the statement of comprehensive income, use was made of the option to present this separately from the consolidated income statement. The balance sheet classification distinguishes between non-current and current assets and liabilities, some of which are presented in detail in the notes according to their current or non-current distinction.

The Consolidated Financial Statements are prepared in euro. Unless otherwise indicated, figures in the notes are shown in euro thousands (k €). Rounding is thus necessary, although this of course is not significant in its nature.

#### 3. Consequences of new or amended standards and interpretations

In financial year 2018, STADA observed and, if relevant, applied the pronouncements and amendments to pronouncements published by the IASB and endorsed by the EU which were first applicable as of January 1, 2018. Insofar as these changes have material effects on the presentation of STADA's net assets, financial position and results of operations or cash flows, these are described in detail below:

In July 2014, IASB published the standard IFRS 9 “Financial Instruments”. The standard replaces IAS 39 and introduces new rules for the classification, recognition and valuation of financial instruments. Furthermore, IFRS 9 also includes guidelines on the accounting of hedging transactions. IFRS 9 is to be applied for financial years beginning on or after January 1, 2018. STADA applied the new standard for the first time on January 1, 2018. There will be no adjustment of the previous year's figures pursuant to the transitional provisions of IFRS 9. Accordingly, the accumulative effect from the initial application of IFRS 9 as of January 1, 2018, was recorded in equity with no effect on profit or loss.

IFRS 9 has introduced a new model for the classification of financial assets. For debt instruments, these are classified based on their contractual cash flow characteristics and the business model under which they are held. As a consequence, financial instruments of the category “measured at amortized cost” (AC) are reclassified to the category “measured at fair value through other comprehensive income” (FVOCI) or to the category “measured at fair value through profit or loss” (FVPL).

## Notes to the Consolidated Financial Statements (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

For the classification of financial assets and financial liabilities, initial application of IFRS 9 has had the following impacts:

in k €	IAS 39			Remeasurement		IFRS 9	
	Category	Carrying amount as of Dec. 31, 2017	Reclassification	ECL	Other	Carrying amount as of Jan. 1, 2018	Category
<b>Financial assets</b>							
Cash and cash equivalents . . . . .	LaR	243,195	—	—	—	243,195	AC
Trade accounts receivable . . . . .	LaR	520,441	– 14,140	– 2,655	—	503,646	AC
to: Financial assets (FVOCI) . . . .		—	14,140	—	– 50	14,090	FVOCI
Derivative financial assets with a hedging relationship . . . . .	n/a	678	—	—	—	678	n/a
Derivative financial assets without a hedging relation- ship . . . . .	FAHfT	—	—	—	—	—	FVPL
Other financial assets . . . . .	LaR	10,217	—	– 2	—	10,215	AC
<b>Non-financial assets</b>							
Deferred tax assets . . . . .	—	27,571	—	—	812	28,383	—
<b>Total assets</b> . . . . .		<b>802,102</b>	<b>—</b>	<b>– 2,657</b>	<b>762</b>	<b>800,207</b>	
<b>Financial liabilities</b>							
Trade accounts payable . . . . .	FLAC	340,642	—	—	—	340,642	AC
Amounts due to banks . . . . .	FLAC	84,823	—	—	—	84,823	AC
Promissory note loans . . . . .	FLAC	525,112	—	—	—	525,112	AC
Bonds . . . . .	FLAC	647,986	—	—	—	647,986	AC
Finance lease liabilities . . . . .	n/a	3,419	—	—	—	3,419	n/a
Derivative financial liabilities with a hedging relationship . . . . .	n/a	1,244	—	—	—	1,244	n/a
Derivative financial liabilities without a hedging relationship .	FLHfT	6	—	—	—	6	FVPL
Other financial liabilities . . . . .	FLAC	225,471	—	—	—	225,471	AC
<b>Non-financial liabilities</b>							
Deferred tax liabilities . . . . .	—	116,481	—	—	416	116,897	—
<b>Total liabilities</b> . . . . .		<b>1,945,184</b>	<b>—</b>	<b>—</b>	<b>416</b>	<b>1,945,600</b>	

Pursuant to IFRS 9, a financial asset is assessed at fair market value through other comprehensive income if the underlying business model consists of holding the assets in order to collect contractual cash flows and to sell financial assets (business model qualification). In addition, the cash flow condition must be met. This is the case when the contractual features of the financial assets at fixed times provide exclusively for interest and discharge payments toward the outstanding principal.

The new regulations for the classification of financial assets have led to changes for the receivables that can be factored in terms of their measurement and presentation as a result of the underlying business model. These financial assets, which remain under trade accounts receivable, are no longer measured at amortized cost, but at fair value through other comprehensive income.

Changes in the fair value of these receivables are therefore recognized directly in equity through other comprehensive income in the FVOCI reserve. Meanwhile, financial assets that are recognized at fair value through other comprehensive income are fundamentally subject to the same impairment model as the financial assets recognized at amortized cost.

Under IFRS 9, equity instruments in general and derivatives are always recognized at fair value through profit or loss. For equity instruments, IFRS 9 offers the choice to record changes in fair value under other comprehensive income. STADA has not made use of this option to date.

## Notes to the Consolidated Financial Statements (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

Due to the new regulations on impairment, expected losses are recognized as expenses earlier under IFRS 9. While under IAS 39 the incurred losses model was relevant for establishment of a risk provision, under IFRS 9 they are based on the expected credit losses model. STADA applied the simplified approach for trade accounts receivable. For other financial assets, the general approach is applied on principle. As a result of the initial application of the impairment regulations in accordance with IFRS 9 as of January 1, 2018, the total amount of impairments increased by €2.7 million. The reconciliation of the risk provision under IAS 39 to expected credit losses in accordance with IFRS 9 is described below:

in k €	Risk provision under IAS 39 as of Dec. 31, 2017	Remeasurement	ECL under IFRS 9 as of Jan. 1, 2018
Valuation allowance for trade accounts receivable (AC) . . . . .	145,828	2,655	148,483
Valuation allowance for other financial assets (AC) . . . . .	11,414	2	11,416
<b>Total valuation allowances . . . . .</b>	<b><u>157,242</u></b>	<b><u>2,657</u></b>	<b><u>159,899</u></b>

Country-specific loss probabilities are applied to determine expected credit losses under IFRS 9.

The changes made under IFRS 9 resulted in adjustments as of January 1, 2018 to the FVOCI reserve and to the profit brought forward (not taking into account the amounts for shares relating to non-controlling shareholders), which are described below:

in k €	FVOCI reserve
<b>As of Dec. 31, 2017 . . . . .</b>	<b>—</b>
Financial assets recognized through other comprehensive income (FVOCI) . . . . .	– 50
Deferred taxes . . . . .	12
<b>As of Jan. 1, 2018, per IFRS 9 . . . . .</b>	<b><u>– 38</u></b>

in k €	Profit brought forward
<b>As of Dec. 31, 2017 . . . . .</b>	<b><u>717,364</u></b>
Recognition ECL per IFRS 9 for financial assets (AC) . . . . .	– 2,523
Deferred taxes . . . . .	358
<b>As of Jan. 1, 2018, per IFRS 9 . . . . .</b>	<b><u>715,199</u></b>

In May 2014, the IASB published the new standard IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 governs revenue recognition for contracts with customers in a 5-step model and in particular replaces the existing standards IAS 11 “Construction Contracts” and IAS 18 “Revenue”. IFRS 15 is to be applied for financial years beginning on or after January 1, 2018. STADA applied the new standard on January 1, 2018 for the first time. In doing so, STADA made use of its right to choose simplified initial application. Accordingly, the contracts that were not fully completed as of January 1, 2018 are accounted for as if the new standard IFRS 15 were already applied when these contracts began so that the cumulative effect from the change will be recognized directly in equity. There is no adjustment of the comparable figures from the prior-year period.

Initial application of IFRS 15 as of January 1, 2018 led to an augmenting cumulative effect of €0.4 million that was recognized in retained earnings. The effect resulted primarily from the to be accounted contract assets which in future are to be shown within the scope of return regulations and the deferred taxes to be established as a result. Furthermore, application resulted in reclassification of €0.6 million of down payments from trade accounts payable to contract liabilities. The new standard on revenue recognition will thus have little impact on sales accounting, as sales are largely realized in the Consolidated Financial Statements as a result of routine transactions. There are no agreements in the Group governing multiple services in a contract or in several contracts (multi-element arrangements). There were also no changes made in the accounting for license agreements, as they amounted to less than 2% of total sales in the 2017

## Notes to the Consolidated Financial Statements (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

financial year. All of STADA's license agreements are either bound to the achieved sales of the licensee or further activities are necessary on the part of STADA that would allow the use of the right by the licensee. If this were not the case for such license agreements, the result, due to the new IFRS 15 standard, future sales would be realized in the amount of the entire license fee with the granting of a license and therefore no longer, as they are presently, divided over the term of the license.

The effects of first-time application of the new IFRS 9 and IFRS 15 standards as of January 1, 2018 on STADA's consolidated balance sheet are described in condensed form below:

Consolidated balance sheet in k € Assets	Dec. 31, 2017 (reported)	Adjustments under IFRS 9	Adjustments under IFRS 15	Jan. 1, 2018 (adjusted)
<b>Non-current assets</b>	<b>1,880,574</b>	<b>812</b>	<b>—</b>	<b>1,881,386</b>
Intangible assets	1,474,342			1,474,342
Property, plant and equipment	332,738			332,738
Financial assets	1,978			1,978
Investments measured at equity	41,528			41,528
Other financial assets	1,087			1,087
Other assets	1,330			1,330
Deferred tax assets	27,571	812		28,383
<b>Current assets</b>	<b>1,323,952</b>	<b>– 2,707</b>	<b>622</b>	<b>1,321,867</b>
Inventories	499,012			499,012
Trade accounts receivable	520,441	– 2,705		517,736
Return assets	—		622	622
Income tax receivables	14,346			14,346
Other financial assets	9,809	– 2		9,807
Other assets	35,323			35,323
Cash and cash equivalents	243,194			243,194
Non-current assets and disposal groups held for sale	1,827			1,827
<b>Total assets</b>	<b>3,204,526</b>	<b>– 1,895</b>	<b>622</b>	<b>3,203,253</b>



## Notes to the Consolidated Financial Statements (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

Equity and liabilities	Dec. 31, 2017 (reported)	Adjustments under IFRS 9	Adjustments under IFRS 15	Jan. 1, 2018 (adjusted)
<b>Equity</b> . . . . .	<b>1,006,406</b>	<b>– 2,311</b>	<b>446</b>	<b>1,004,541</b>
Share capital . . . . .	162,090			162,090
Capital reserve . . . . .	514,206			514,206
Retained earnings including net income . . . . .	717,364	– 2,165	446	715,645
Other reserves . . . . .	– 430,013	– 38		– 430,051
Treasury shares . . . . .	– 1,405			– 1,405
<b>Equity attributable to shareholders of the parent company</b> . . . . .	<b>962,242</b>	<b>– 2,203</b>	<b>446</b>	<b>960,485</b>
Shares relating to non-controlling shareholders . .	44,164	– 108		44,056
<b>Non-current borrowed capital</b> . . . . .	<b>157,572</b>	<b>416</b>	<b>176</b>	<b>158,164</b>
Pension provisions . . . . .	35,293			35,293
Financial liabilities . . . . .	816			816
Other financial liabilities . . . . .	4,032			4,032
Other liabilities . . . . .	950			950
Deferred tax liabilities . . . . .	116,481	416	176	117,073
<b>Current borrowed capital</b> . . . . .	<b>2,040,548</b>	<b>—</b>	<b>—</b>	<b>2,040,548</b>
Other provisions . . . . .	23,507			23,507
Financial liabilities . . . . .	1,257,105			1,257,105
Trade accounts payable . . . . .	340,642		– 563	340,079
Contractual liabilities . . . . .	—		563	563
Income tax liabilities . . . . .	69,663			69,663
Other financial liabilities . . . . .	226,108			226,108
Other liabilities . . . . .	123,523			123,523
Non-current liabilities and disposal groups held for sale . . . . .	—			—
<b>Total equity and liabilities</b> . . . . .	<b>3,204,526</b>	<b>– 1,895</b>	<b>622</b>	<b>3,203,253</b>

#### The IASB has published the following IFRS standards that were not yet applied:

In January 2016, the IASB published the new standard IFRS 16 “Leases”, which determines the recognition of contractual rights (assets) and obligations (financial liabilities) associated with leases in the balance sheet for lessees. Lessees must therefore no longer classify leases as finance leases or operating leases. IFRS 16 is to be applied for financial years beginning on or after January 1, 2019. Earlier application is permitted. STADA will apply the new standard for the first time from January 1, 2019 and thereby likely modified retroactively, i.e. an adjustment of the prior-year figures will be waived. In this context, the rights of use will likely be equated with lease liabilities at the time of the change.

An examination of the impact of the application of IFRS 16 on the Consolidated Financial Statements has not yet been fully completed. As a result of the accounting of assets and liabilities in the lessee’s balance sheet, as required by IFRS 16, a significant increase in the balance sheet total is expected at the point of initial application. Given the current lease agreements and the currently available study results, STADA anticipates the recognition of rights of use in the amount of approximately €40 million and the recording of lease obligations in the amount of €40 million. Instead of leasing expenses, as a result of amendments to IFRS 16, future depreciation and amortization and interest expenses will be recorded in the income statement—with a corresponding positive impact on the EBITDA. Based on the current status of the study, STADA assumes that the write-downs of current lease agreements will in total amount to approximately €40 million in future. In addition, STADA expects future interest expenses in the amount of approximately €10 million. In accordance with the previous requirements of IAS 17 “Leases”, these expenses would have been fully recognized in operating profit as a leasing expense and as a reduction of

## Notes to the Consolidated Financial Statements (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

EBITDA. The change-over effect relates at STADA for the most part to leased real estate, company vehicles as well as office and business equipment.

Furthermore, in May 2017, IFRIC 23 “Uncertainty over Income Tax Treatments” was issued by the IASB, through which a clarification of the requirements of the approach and measurement of uncertain earnings positions arose. According to this, a company within the scope of the assessment of the uncertainty must estimate how probable the acceptance of the tax treatment of business transactions in the respective tax jurisdictions is. The interpretation is to be applied for financial years which begin on or after January 1, 2019, whereby earlier application is permitted. STADA currently finds itself in the evaluation on the impact of IFRIC 23 on the Consolidated Financial Statements of the Company.

From today’s perspective, no or no significant effects on the Consolidated Financial Statements are expected from the future application of the further standards and interpretations not yet applied.

### 4. Changes in accounting policies

There were no changes to accounting policies with significant consequences for the presentation of STADA’s net assets, financial position and results of operations or cash flow in financial year 2018.

### 5. Scope of consolidation

All significant subsidiaries, joint ventures and associates are included in the Consolidated Financial Statements. Subsidiaries are companies that are directly or indirectly controlled by STADA and are therefore fully consolidated. Control exists if STADA Arzneimittel AG or its subsidiaries are in control of an investee, are exposed to variable backflows and, due to control over existing rights, are able to substantially influence the investee’s variable backflows. Control is usually substantiated by a share of voting rights of more than 50%.

Joint arrangements are characterized by joint control by two or more parties and should be classified as either joint operations or as joint ventures. In joint operations, the parties that exercise joint control possess the rights to assets and liabilities included in the agreement. In joint ventures, however, the parties involved possess rights to the company’s net assets. Joint ventures are to be included in the Consolidated Financial Statements using the equity method.

Associates are companies over which STADA can have significant influence and are not subsidiaries or joint ventures. They are included in the Consolidated Financial Statements using the equity method.

Subsidiaries, joint ventures and associates whose influence, both individually and as a whole, on the net assets, financial position and results of operations of the STADA Group is insignificant, are not consolidated or accounted for using the equity method. Investments in these companies are accounted at amortized cost under financial assets. Accumulated, the sales and balance sheet total of these companies make up about 1% of total Group sales and/or the balance sheet total.

Changes in the scope of consolidation resulted regarding the number of subsidiaries, joint ventures and associates included in financial year 2018 and are as follows:

<u>Number of companies in the scope of consolidation</u>	<u>Germany</u>	<u>Outside Germany</u>	<u>Total</u>
<b>January 1, 2018</b> . . . . .	<b>10</b>	<b>74</b>	<b>84</b>
Acquisitions . . . . .	1	1	2
Disposals . . . . .	1	4	5
<b>December 31, 2018</b> . . . . .	<b>10</b>	<b>71</b>	<b>81</b>

For the former Vietnamese subsidiary STADA Vietnam J.V., a contract was signed in the fourth quarter of 2017 for the sale of the shares held in the company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. In accordance with IAS 28, the company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale. As a result, the financial information of this company is no longer taken into account for the purposes of inclusion as a subsidiary.

## Notes to the Consolidated Financial Statements (Continued)

### 5. Scope of consolidation (Continued)

In addition, the two French companies Pharm Ortho Pedic SAS and AELIA SAS as well as the Russian Dialogfarma LLC were recorded in the Consolidated Financial Statements as associates in accordance with the equity method.

In the second quarter, the Russian subsidiary ZAO Makiz-Pharma was merged with the Russian subsidiary OOO Hemofarm on May 24, 2018, retaining the name OOO Hemofarm.

In addition, the Hungarian company STADA Hungary LLC was re-constituted on March 26, 2018. The company has been accounted for as a subsidiary since September 30, 2018.

STADA has been consolidating BIOCEUTICALS Arzneimittel AG, formerly recognized as associated company, as a subsidiary since September 30, 2018 following a successful increase of its stake. The BIOCEUTICALS Arzneimittel AG subsidiary NorBiTec GmbH is also included in the Consolidated Financial Statements starting as of September 30, 2018.

On December 29, 2018, the business combination of the two Russian subsidiaries OOO STADA Marketing and ZAO Skopinpharm into the Russian subsidiary OOO Hemofarm took place under the continuation of the company name OOO Hemofarm.

In addition, the two subsidiaries Socialites Retail Germany GmbH and Socialites Nederlands B.V. were deconsolidated as of December 31, 2018.

In the Consolidated Financial Statements of the STADA Group, 77 companies were consolidated as subsidiaries and four companies as associates as of the reporting date on December 31, 2018.

The following condensed financial information is given for these four associates:

<u>in € million</u>	<u>2018</u>	<u>2017</u>
Share of result from continuing operations . . . . .	1.9	2.3
Share of result from discontinued operations . . . . .	—	—
Share of other comprehensive income . . . . .	—	—
<b>Share of comprehensive income . . . . .</b>	<b><u>1.9</u></b>	<b><u>2.3</u></b>
Status change of BIOCEUTICALS Arzneimittel AG in 2018 . . . . .	– 15.0	—
Status change of STADA Vietnam J.V. in 2017 . . . . .	—	25.3
<b>Aggregate carrying amount . . . . .</b>	<b><u>24.6</u></b>	<b><u>41.5</u></b>

Significant non-controlling interests exist in the STADA Group as of December 31, 2018 in the Vietnamese subsidiaries Pyme-pharco Joint Stock Company as well as in the German BIOCEUTICALS Arzneimittel AG.

The influence of other shareholders in Pymepharco Joint Stock Company as of December 31, 2018 is presented below:

<u>Name of subsidiary</u>	<u>Headquarters/ place of founding</u>	<u>Share in voting rights of non-controlling interests</u>	<u>Result of non-controlling interests in 2018 in k €</u>	<u>Accumulated non-controlling shares as of Dec. 31, 2018 in k €</u>
Pymepharco . . . . .	Vietnam	28%	3,726	25,064

The disclosures for the previous year are as follows:

<u>Name of subsidiary</u>	<u>Headquarters/ place of founding</u>	<u>Share in voting rights of non-controlling interests</u>	<u>Result of non-controlling interests in 2017 in k €</u>	<u>Accumulated non-controlling shares as of Dec. 31, 2017 in k €</u>
Pymepharco . . . . .	Vietnam	41%	3,964	32,126

## Notes to the Consolidated Financial Statements (Continued)

### 5. Scope of consolidation (Continued)

In the following, the combined financial information of Pymepharco as of December 31, 2018 and for financial year 2018 is presented:

in k €	Assets as of Dec. 31, 2018		Liabilities as of Dec. 31, 2018	
	current	non-current	current	non-current
Pymepharco	54,975	55,967	5,553	11,330

in k €	Sales	Earnings after taxes in 2018		Total earnings in 2018	Dividends to non-controlling interests in 2018
		distributable to STADA	distributable to non-controlling interests		
Pymepharco	61,409	5,247	3,726	11,212	3,343

For the previous year, the following disclosures are made regarding the summarized financial information for Pymepharco:

in k €	Assets as of Dec. 31, 2017		Liabilities as of Dec. 31, 2017	
	current	non-current	current	non-current
Pymepharco	46,500	58,267	6,238	10,737

in k €	Sales	Earnings after taxes in 2017		Total earnings in 2017	Dividends to non-controlling interests in 2017
		distributable to STADA	distributable to non-controlling interests		
Pymepharco	63,105	5,705	3,964	– 1,457	2,379

In the following, information on the cash flow for Pymepharco for financial years 2018 and 2017 is presented.

in k €	Cash flow from operating activities		Cash flow from investing activities		Cash flow from financing activities	
	2018	2017	2018	2017	2018	2017
Pymepharco	7,021	9,070	– 12,035	– 2,075	—	—

In the following, the influence of other shareholders on BIOCEUTICALS Arzneimittel AG as of December 31, 2018 is presented:

Name of subsidiary	Headquarters/ place of founding	Share in voting rights of non-controlling interests	Result of non-controlling interests in 2018 in k €	Accumulated non-controlling shares as of Dec. 31, 2018 in k €
BIOCEUTICALS Arzneimittel AG	Germany	48.66%	– 1,438	72,769

In the following, summarized financial information for BIOCEUTICALS Arzneimittel AG as of December 31, 2018 and for financial year 2018 since the consolidation as a subsidiary as of September 30, 2018 are presented:

in k €	Assets as of Dec. 31, 2018		Liabilities as of Dec. 31, 2018	
	current	non-current	current	non-current
BIOCEUTICALS Arzneimittel AG	114,361	79,368	24,102	28,311

in k €	Sales	Earnings after taxes in 2018		Total earnings in 2018	Dividends to non-controlling interests in 2018
		distributable to STADA	distributable to non-controlling interests		
BIOCEUTICALS Arzneimittel AG	3,796	– 1,517	– 1,438	– 2,955	—

## Notes to the Consolidated Financial Statements (Continued)

### 5. Scope of consolidation (Continued)

In the following, information on the cash flow of BIOCEUTICALS Arzneimittel AG for financial year 2018 since the consolidation as a subsidiary as of September 30, 2018 is presented:

in k €	Cash flow from operating activities		Cash flow from investing activities		Cash flow from financing activities	
	2018	2017	2018	2017	2018	2017
BIOCEUTICALS Arzneimittel AG . . . . .	8,636	—	—	—	– 25,000	—

Subsidiaries, joint ventures and associates as well as all non-consolidated and other investments pursuant to the regulations of Section 313 (2) HGB are included in the Consolidated Financial Statements as investments and listed below.

#### Direct investments of STADA Arzneimittel AG:

Name of the company, registered office	Share in capital	Form of consolidation
AO Nizhpharm, Nizhny Novgorod, Russia . . . . .	100%	subsidiary
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany . . . .	51.34%	associate
Cicum Farma, Unipessoal, LDA, Paco de Arcos, Portugal . . .	100%	subsidiary
Crinos S.p.A., Milan, Italy . . . . .	100%	subsidiary
EG Labo—Laboratoires Eurogenerics SAS, Boulogne-Billancourt, France . . . . .	100%	subsidiary
EG S.p.A., Milan, Italy . . . . .	100%	subsidiary
Laboratorio STADA, S.L., Barcelona, Spain . . . . .	100%	subsidiary
Laboratorio Vannier S.A., Buenos Aires, Argentina . . . . .	100%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany . . . . .	100%	subsidiary
OOO Hemofarm, Obninsk, Russia . . . . .	100%	subsidiary
SCIOTEC Diagnostics Technologies GmbH, Tulln, Austria . . .	100%	subsidiary
Socialites Retail Germany GmbH, Bad Vilbel, Germany . . . .	100%	subsidiary/not included
STADA Aesthetics Deutschland GmbH, Bad Homburg, Germany <sup>1</sup> . . . . .	100%	subsidiary/not included
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria . . .	100%	subsidiary
STADA d.o.o., Ljubljana, Slovenia . . . . .	100%	subsidiary
STADA d.o.o., Zagreb, Croatia . . . . .	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt <sup>1</sup> . . . . .	100%	subsidiary/not included
STADA LUX S.à R.L., Luxembourg, Luxembourg . . . . .	100%	subsidiary/not included
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria . . . . .	100%	subsidiary
STADA PHARMA CZ s.r.o., Prague, Czech Republic . . . . .	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India . .	100%	subsidiary/not included
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia . . . . .	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China . . . .	100%	subsidiary
STADA Pharmaceuticals Australia Pty. Ltd., Sydney, Australia	100%	subsidiary
STADA Poland Sp. z o.o., Piaseczno, Poland . . . . .	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
STADA (Shanghai) Company Management Consulting Co. Ltd., Shanghai, China . . . . .	100%	subsidiary/not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand . . . . .	100%	subsidiary
STADA UK Holdings Ltd., Reading, United Kingdom . . . . .	100%	subsidiary

<sup>1</sup> Currently in the process of liquidation.



## Notes to the Consolidated Financial Statements (Continued)

### 5. Scope of consolidation (Continued)

#### Indirect investments of STADA Arzneimittel AG

Name of the company, registered office	Share in capital	Form of consolidation
AELIA SAS, Saint Briec, France . . . . .	20%	associate
ALIUD PHARMA GmbH, Laichingen, Germany . . . . .	100%	subsidiary
Britannia Pharmaceuticals Ltd., Reading, United Kingdom . . . . .	100%	subsidiary
Brituswip Ltd., Reading, United Kingdom . . . . .	50%	joint venture/not included
BSMW Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Centrafarm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Centrafarm Nederland B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Centrafarm Services B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Clonmel Healthcare Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
CNRD 2009 Ireland Ltd., Dublin, Ireland . . . . .	50%	joint venture/not included
Crosspharma Ltd., Belfast, United Kingdom . . . . .	100%	subsidiary
Dak Nong Pharmaceutical JSC, Dak Nong, Vietnam . . . . .	43%	investment/not consolidated
Fresh Vape Electronic Cigarettes Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Healthypharm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia . . . . .	100%	subsidiary
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia- Herzegovina . . . . .	91.50%	subsidiary
Hemofarm Komerc d.o.o., Skopje, Macedonia <sup>1</sup> . . . . .	99.18%	subsidiary/not included
Hemofarm S.à R.L., Constantine, Algeria . . . . .	40%	investment/not consolidated
Hemomont d.o.o., Podgorica, Montenegro . . . . .	71.02%	subsidiary
Hemopharm GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
Internis Pharmaceuticals Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Jinan Pharmaceuticals Co., Jinan, China . . . . .	35.50%	investment/not consolidated
LAS Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
LCM Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Lowry Solutions Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Natures Aid Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan . . . . .	100%	subsidiary
NorBiTec GmbH, Uetersen, Germany . . . . .	66.66%	subsidiary
OOO Aqualor, Moscow, Russia . . . . .	100%	subsidiary
OOO Dialogfarma, Moscow, Russia . . . . .	50%	associate
Pegach AG, Egerkingen, Switzerland . . . . .	100%	subsidiary
Pharm Ortho Pedic SAS, Trélazé, France . . . . .	30%	associate
Phu Yen Export Import Pharmaceutical JSC, Phu Yen, Vietnam . . . . .	20%	investment/not consolidated
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam . . . . .	72%	subsidiary
Quang Tri Pharmaceutical JSC, Quang Tri, Vietnam . . . . .	49%	investment/not consolidated
Quatropharma Holding B.V., Etten-Leur, The Netherlands . . . . .	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium . . . . .	100%	subsidiary
Slam Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites E-Commerce Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites Nederlands B.V., Beuningen, The Netherlands . . . . .	100%	subsidiary/not included
Socialites Retail Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Spirig HealthCare AG, Egerkingen, Switzerland . . . . .	100%	subsidiary

<sup>1</sup> Currently in the process of liquidation.

## Notes to the Consolidated Financial Statements (Continued)

### 5. Scope of consolidation (Continued)

#### Indirect investments of STADA Arzneimittel AG

Name of the company, registered office	Share in capital	Form of consolidation
STADA Aesthetics AG, Egerkingen, Switzerland . . . . .	100%	subsidiary/not included
STADA Aesthetics UK Limited, West Wickham, United Kingdom <sup>1</sup> . . . . .	100%	subsidiary/not included
STADA CEE GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA Financial Investments Ltd., Clonmel, Ireland . . .	100%	subsidiary
STADA Genéricos, S.L., Barcelona, Spain . . . . .	100%	subsidiary/not included
STADA GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA HEMOFARM S.R.L., Temeswar, Romania . . . . .	100%	subsidiary
STADA Hungary LLC, Budapest, Hungary . . . . .	100%	subsidiary
STADA IT Solutions d.o.o., Vrsac, Serbia . . . . .	100%	subsidiary
STADA, LDA, Paco de Arcos, Portugal . . . . .	100%	subsidiary/not included
STADA M&D S.R.L., Bucharest, Romania . . . . .	100%	subsidiary
STADA Medical GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA MENA DWC-LLC, Dubai, United Arab Emirates . . . . .	100%	subsidiary
STADA Nordic ApS, Herlev, Denmark . . . . .	100%	subsidiary
STADAPHARM GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China . .	83.351%	subsidiary
STADA Philippines Inc., Manila, Philippines . . . . .	100%	subsidiary
STADA-Ukraine, Kiev, Ukraine . . . . .	100%	subsidiary
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam . . . . .	50%	associate
Sundrops Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Thornton & Ross Ltd., Huddersfield, United Kingdom . .	100%	subsidiary
Thornton & Ross Ireland Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania . . . . .	100%	subsidiary
Velefarm A.D., Belgrade, Serbia . . . . .	19.65%	investment/not consolidated
Velexfarm d.o.o., Belgrade, Serbia . . . . .	100%	subsidiary
Vetfarm A.D., Belgrade, Serbia . . . . .	15%	investment/not consolidated
Well Light Investment Company Limited, Ho Chi Minh City, Vietnam . . . . .	100%	subsidiary
Zeroderma Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

<sup>1</sup> Currently in the process of liquidation.

The exemption rule in Section 264 (3) HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Phar-mawerte mbH, Hemopharm GmbH, Mobilat Produktions GmbH, Socialites Retail Germany GmbH, STADA CEE GmbH, STADA GmbH, STADA Medical GmbH and STADAPHARM GmbH.

### 6. Principles for the consolidation of subsidiaries, joint ventures and associates

In accordance with IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full—irrespective of the amount of the shareholding—as of the acquisition date at their fair values. If the historical costs of the subsidiary acquired exceed the proportionate newly-measured net assets of the acquiree, STADA recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized through profit or loss in the period of the acquisition. In a business combination achieved in stages, it is necessary to carry out a

## Notes to the Consolidated Financial Statements (Continued)

### 6. Principles for the consolidation of subsidiaries, joint ventures and associates (Continued)

revaluation through profit or loss of the shares previously held at the date control was achieved. The shares of non-controlling interests are disclosed in the amount of their share in net assets of the subsidiary.

The acquisition of additional shares from an existing controlling position in a subsidiary is recognized through other comprehensive income in accordance with IFRS 10, as it is a transaction between the equity investors.

Subsidiaries are generally included in the Consolidated Financial Statements from the acquisition date to the end of control by the parent company. Receivables, liabilities, expenses, income and earnings between the companies included in the Consolidated Financial Statements are eliminated, intercompany value adjustments and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Shares in associates are recognized according to the equity method at acquisition cost on the date when joint control is established (joint ventures) or when significant influence was established (associates) and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the carrying amount of the investment in the associate. A negative difference is recognized in income in the period of the acquisition in the results from associates. Profit and loss from transactions with associates is recognized in the Consolidated Financial Statements only according to the share of minority interests.

If indications arise from the application of IFRS 9 that the carrying amount determined using the equity method might be impaired, an impairment test is carried out and, if applicable, an impairment loss in the amount of the difference between the carrying amount and the recoverable amount is recognized. The recoverable amount is the higher of the fair value less cost to sell and the value in use of the shares in an associate.

### 7. Currency translation

The functional currency of STADA Arzneimittel AG is the euro and represents the reporting currency of the Group.

In the separate financial statements of companies included in the Consolidated Financial Statements, foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transactions. On every reporting date, monetary items are translated using the closing rate and non-monetary items are translated using the transaction rate. Resulting currency translation differences are recognized in income as exchange gains or losses.

The translation of the companies with a functional currency other than the euro included in the Consolidated Financial Statements into the Group functional currency is carried out using the closing rate method. Assets and liabilities are generally translated using the closing rate, while individual components of equity are translated using the historical rates at their respective dates of inflow from the Group's perspective. The income and expenses of the income statements are translated—and thereby also the resulting translation of the annual results to be entered in equity—using the average exchange rate of the period.

Currency translation differences arising from the use of different exchange rates are recognized directly in equity in "Provisions for currency translation". These provisions are released and recognized in income if Group companies leave the scope of consolidation.

## Notes to the Consolidated Financial Statements (Continued)

### 7. Currency translation (Continued)

The exchange rate development of currencies important to STADA to the euro can be seen in the following chart:

Significant currency relations in local currency to 1 euro	Closing rate on Dec. 31 in local currency			Average rate for the reporting period		
	2018	2017	± %	2018	2017	± %
Pound sterling . . . . .	0.89453	0.88723	1%	0.88475	0.87614	1%
Swiss franc . . . . .	1.12690	1.17020	−4%	1.15488	1.11156	4%
Russian ruble . . . . .	79.71530	69.39200	15%	74.05507	65.88766	12%
Serbian dinar . . . . .	118.19460	118.47270	−0%	118.27336	121.41395	−3%
Ukrainian hryvnia . . . . .	31.73620	33.73180	−6%	32.11569	30.03099	7%
US dollar . . . . .	1.14500	1.19930	−5%	1.18149	1.12928	5%

### 8. Business combinations

In financial year 2018, the following significant business combinations in the sense of IFRS 3 occurred, for which the preliminary purchase price allocation is described in greater detail below.

As of September 27, 2018 STADA assumed control of the German company BIOCEUTICALS Arzneimittel AG, Bad Vilbel. The company produces the active ingredient erythropoietin and markets it primarily by issuing sales licenses to STADAPHARM and other third parties. BIOCEUTICALS Arzneimittel AG, which was previously included in the Consolidated Financial Statements as an associated company, as well as its subsidiary NorBiTec GmbH, have been included in the Consolidated Financial Statements as subsidiaries since September 30, 2018 with consideration of minority interests. Assumption of control occurred as a result of acquisition of an additional 35.48% of other shareholders shares, so that STADA—together with the shares it already held—holds 51.34% of shares in BIOCEUTICALS Arzneimittel AG and is therefore the majority shareholder in the company. The purchase price for the acquisition in the amount of €35.0 million was paid entirely in cash. The acquisition took place on September 27, 2018 following approval by anti-trust authorities as per the purchase agreement concluded in August of 2018.

Within the scope of the final purchase price allocation, there were significant changes as compared to the preliminary purchase price allocation as of September 30, 2018. These are attributable in particular to the measurement of intangible assets. Accordingly, a negative difference in the amount of €27.6 million arose which is considered a bargain purchase and which resulted as follows:

#### in € million

Purchase price for 35.48% of the shares of the company approximately . . . . .	35.0
Fair value of shares at the time of purchase recorded per equity method . . . . .	15.6
Proportionate fair values of the assets and liabilities acquired approximately . . . . .	78.3
<b>Negative difference . . . . .</b>	<b>27.6</b>

The revaluation of shares recorded in accordance with the equity method up to the time of purchase resulted at the time control was acquired in an amount of €0.6 million, which was recorded in other income.

The negative difference was recognised in other income. Based on the negative difference determined as part of the purchase price allocation, the procedures used to determine the fair values of the identifiable assets and liabilities assumed were reviewed again. In this context, it was ensured that all information available at the time of acquisition had been adequately taken into account in the valuation.

The share of the company held by non-controlling shareholders determined at the time of purchase as part of the purchase price allocation was €74.2 million. This corresponds to a 48.66% share of BIOCEUTICALS Arzneimittel AG net assets, which is derived from the fair value of assets and liabilities at the time of purchase.

## Notes to the Consolidated Financial Statements (Continued)

### 8. Business combinations (Continued)

The following fair values were applied at the acquisition date for the assets acquired and liabilities assumed in the context of business combinations:

#### Fair values in € million

Intangible assets . . . . .	87.2
Property, plant and equipment . . . . .	8.3
Deferred tax assets . . . . .	19.0
Inventories . . . . .	18.9
Trade accounts receivable . . . . .	23.4
Other assets . . . . .	5.7
Other current assets . . . . .	1.0
Cash and cash equivalents . . . . .	54.2
<b>Assets . . . . .</b>	<b>217.7</b>
Deferred tax liabilities . . . . .	25.4
Trade accounts payables . . . . .	3.6
Income tax liabilities . . . . .	2.7
Other liabilities . . . . .	23.6
<b>Liabilities . . . . .</b>	<b>55.3</b>
Fair value of acquired assets and liabilities . . . . .	162.4
Shares in minority shareholders before merger . . . . .	9.9
Fair value of acquired assets and liabilities less shares in minority shareholders before the merger . . . . .	152.5
<b>Pro rata fair value of acquired assets and liabilities . . . . .</b>	<b>78.3</b>

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

The gross value of the trade accounts receivable is €23.4 million, which were deemed fully recoverable. Trade accounts receivable were recorded at their fair value in the amount of €23.4 million.

Sales of the BIOCEUTICALS Group for the first three months since initial consolidation amounted to approximately €4.2 million. The operating profit of this business combination adjusted for the effects of the purchase price allocation (around €4.4 million) amounted to approximately €0.3 million in the reporting year. If STADA had acquired the BIOCEUTICALS Group by January 1, 2018, progression on a straight-line-basis in 2018 would have generated sales of approximately €16.8 million and operating profit adjusted for effects from the purchase price allocation (approximately €17.6 million) of approximately €1.2 million.

Even prior to the acquisition of additional shares of BIOCEUTICALS Arzneimittel AG, business relations existed with STADA via the subsidiary STADAPHARM, which was already marketing the active ingredient erythropoietin through the use of a license.

### 9. Accounting policies

STADA's Consolidated Financial Statements are based on uniform accounting policies. The basis for these are the accounting requirements which are mandatory for all companies included in the Consolidated Financial Statements and which are described in more detail below insofar as they are significant for the Consolidated Financial Statements of STADA or for which option rights are exercised.

**Sales** are recorded when the power of disposition over delimitable goods is transferred to the customer so that the customer has the ability to determine the use of the delimitable goods and essentially derive economic benefit from them. This requires that a contract with enforceable rights and duties be in place and that, among other things, receipt of a consideration is highly likely. The customer's creditworthiness should be taken into consideration. The amount of sales is based on the transaction price to which STADA



## 9. Accounting policies (Continued)

is presumptively entitled. The anticipated transaction price is affected by variable considerations, which should, however, be taken into consideration exclusively if it is highly likely that there will be no significant retraction of sales upon elimination of uncertainty with respect to the variable consideration. The amount of the variable consideration is determined by applying the anticipated value method.

Expenses from the creation of provisions for returns are deducted from sales on the basis of estimated amounts. The estimates are based on experience regarding amounts used in the past. The estimated expense from the creation of provisions is determined as a percentage of sales. Discounts to health insurance organizations are also recognized with a reduction on sales based on the respective contract in force.

All STADA license agreements either are bound to the sales generated by the licensee or further activities of STADA are required which enable the licensee to use his or her right. As a consequence, sales are realized over the terms of the contract period.

Income and expenses from the same transactions are generally recognized in the same period. Expenses related to deferrals for future revenue reductions are thus recorded in the period in which the sales are realized.

**Cost of sales** includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. The expense is recognized in the period in which the associated income is realized. In addition, cost of sales also includes costs directly attributable to the commercial goods (e.g. cost of materials and personnel expenses), overhead costs (e.g. scheduled depreciation of production equipment and regulatory drug approvals and licenses) as well as value adjustments of excess or obsolete inventories.

**Development costs** consist of expenses involved initially in the technical implementation of theoretical discoveries in production and production processes and ultimately their commercial implementation.

As a rule, the objective of a development process at STADA is to obtain national or multinational regulatory drug approval. Downstream from the development process is an evaluation process at the end of which a decision on the actual execution of a development is made. Within the development process itself, development costs relative to approvals for new drugs obtained by STADA result in capitalization as intangible assets if all the following preconditions are met:

- It is technically possible to complete the asset (generally, achieve regulatory approval), enabling it to become available for use or sale.
- The intention and ability, as well as the necessary resources, exist to complete the asset and to use (i.e. usually to market it oneself) or sell it in the future.
- The intangible asset provides the Group with a future economic benefit.
- It is possible to reliably calculate the development costs of the intangible asset.

STADA immediately recognizes development costs not eligible for capitalization as expense in the periods in which they are incurred. These include expenses for technical and regulatory maintenance of products marketed.

**Goodwill** is not amortized over the period of useful life. Instead, an impairment test is performed at least once per year (impairment-only approach). For this purpose, goodwill is allocated to cash-generating units aggregated into operating segments, where a cash-generating unit corresponds to a market region within the two operating segments of the STADA Group for the purpose of an impairment test of goodwill.

STADA carries out impairment tests for capitalized goodwill at least once a year. Additional reviews also take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit including the carrying amount of goodwill to be tested. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in

## 9. Accounting policies (Continued)

use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% of the expected long-term inflation rate is assumed. Significant assumptions made in order to determine the value in use include assumptions regarding sales development, regulatory conditions, investments, the discount rate, currency relations as well as the growth rate. These assumptions are made individually according to the individual situations for every cash-generating unit and are partly based on internally determined assumptions that both reflect past experience and include external market data.

**Other intangible assets** with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of their useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar rights is between three and 30 years. Expenses from scheduled amortization of intangible assets are allocated to the relevant functional costs and generally reported within cost of sales. If on the reporting date, there are indications that these assets are impaired, the recoverable amount of the asset is re-evaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indeterminable useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of these assets are compared with their carrying amounts and if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell is determined using the relief from royalty method. At STADA, this affects the umbrella brand Hemofarm capitalized in the context of the acquisition of the Hemofarm group, the umbrella brand Pymepharco capitalized in the context of achieving control over Pymepharco, and the umbrella brand Vannier capitalized in the context of the acquisition of Laboratorio Vannier. Impairment tests are carried out for the umbrella brands with indefinite useful lives at the level of the individual company or, for the umbrella brand Hemofarm, at the level of the individual companies that generate sales under the Hemofarm umbrella brand. Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Internal development costs are capitalized in accordance with the criteria in IAS 38. Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs, external services and directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years).

**Property, plant and equipment** is reported at cost less depreciation and any impairment losses plus write-ups. Depreciation begins when the asset is available for use and is accordingly in the condition necessary for it to be capable of operating. Subsequent acquisition costs are capitalized. Capitalization requires that a future economic benefit will flow to the company and that the cost of the asset can be reliably measured. Expenses for repairs and maintenance that do not represent significant replacement investments are recognized as expenses in the financial year in which they are incurred.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, eight to 20 years in the case of technical facilities and three to 14 years for other plant and office furniture and equipment. The component approach, according to which every significant component of property, plant and equipment with different useful lives, must be depreciated separately, is not applied at STADA due to a lack of relevance. To the extent necessary, impairment losses are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

## 9. Accounting policies (Continued)

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of the intangible asset or property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original historical costs.

**Impairments on other intangible assets and property, plant and equipment** exist when the recoverable amount of an asset is lower than its carrying amount. At each reporting date, STADA assesses whether indications for impairment are apparent. If this is the case, e.g. if certain defined critical values are exceeded, the asset's recoverable amount is determined. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for two operating segments with specific parameters. Expenses arising from impairments are recognized under "Other expenses".

For the purpose of impairment tests of other intangible assets and property, plant and equipment, cash-generating units within the STADA Group are defined at the level of individual assets within the reportable segments of Branded Products and Generics.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the item "Other income".

**Inventories** include such assets that are held for sale in the ordinary course of business (finished goods), that are in the process of production for such sale (work in progress), and that are consumed in the production process or in the rendering of services (materials and supplies). Inventories are measured at the lower of cost and net realizable value. Historical costs or costs of sales are determined based on weighted average costs. Costs of sales include both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included, but are instead recognized as an expense in the period in which they occur. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Financial assets** can be divided into the following categories in accordance with IFRS 9: Measurement at amortised cost ("AC"), financial assets at fair value through profit or loss ("FVPL") and financial assets at fair value through other comprehensive income ("FVOCI"). Financial assets are accounted for and measured in accordance with IFRS 9. This involves classifying a financial asset (debt instrument) on the basis of its contractual cash flow characteristics and business model. Under IFRS 9, a financial asset is carried at cost if the underlying business model is to hold the assets in order to collect contractual cash flows (business model condition). In addition, the cash flow condition must be satisfied. This is the case when the contractual features of the financial asset at specified times only provide for interest and principal payments on the outstanding principal amount.

Receivables eligible for factoring are included in trade accounts receivables. Based on the present business model, they are measured at fair value recorded directly in equity. Changes in the fair value of these receivables are therefore recognized directly in equity in the FVOCI reserve. Financial assets measured at fair value recorded directly in equity are generally subject to the same impairment model as financial assets measured at amortized cost.

In accordance with IFRS 9, expected losses are accounted for on the basis of the expected credit loss model. STADA has applied the simplified approach for trade accounts receivables and return assets. The general approach is generally applied to other financial assets.

**Trade accounts receivable** are measured at amortized cost less impairments using the effective interest rate method. Impairments are made in the form of individual impairments and general individual impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the expected default risk, STADA determines the expected future cash flows from receivables grouped by debtor. To this end, the maturity structures of net receivables and experience relating to derecognition of

## Notes to the Consolidated Financial Statements (Continued)

### 9. Accounting policies (Continued)

receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account. In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for various Group companies. The required impairment determined reduces the assets' carrying amounts through recognition of an impairment account.

The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

**Financial liabilities** are measured on initial recognition at fair value plus transaction costs directly attributable to the acquisition. For financial liabilities that subsequently continue to be measured at fair value, any transaction costs are recognized as an expense in the period in which they occur. This relates to the accounting of derivative financial instruments with negative market values that are not part of an effective hedging relationship and allocated to the category "at fair value through profit or loss" in accordance with IFRS 9. STADA reports these financial liabilities in the "Other financial liabilities" item. Here, those derivative financial instruments are also included which serve to hedge interest rate and currency risks resulting from operating activities, financial transactions and investments, and which are also measured at fair value in accordance with the regulations of IFRS 9 on hedge accounting. Unless market prices are available, fair value is determined with measurement models based on discounted cash flow models.

Fair value hedges serve to hedge against the risk of market value fluctuations. The results from the hedging instruments are generally recognized in income statement items in which the hedged underlying transaction is also reflected. Within the scope of fair value hedge accounting, in addition to the fair value change in the derivative, the opposing fair value change in the underlying transaction is recognized in profit or loss, insofar as it is attributable to the hedged risk.

STADA has so far not made use of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

### 10. Estimates, assumptions and discretion in the application of accounting principles

The presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements is determined by recognition and valuation methods. To a certain extent, STADA makes estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly re-evaluated, estimates derived in this way may differ from actual circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets evaluated according to IFRS 3 and the consideration transferred plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods are used for this that are primarily based on estimates and assumptions.

STADA carries out an impairment test for capitalized goodwill at least once a year. The discounted future cash flows of the cash-generating units, aggregated into operating segments, which are based on certain assumptions, are to be determined for this purpose. In this regard, both an allocation from "Corporate Assets" to the carrying amounts of the respective cash-generating units and an allocation from "Corporate Costs" are carried out in the calculation of the respective value in use on the basis of individual appropriate distribution keys. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years based on approved budgets.

For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% of the expected long-term inflation rate is assumed. The budget values for future financial years, which are subject to some uncertainty due to unforeseeable future legal developments and developments in the health care market, as well as the parameters determined in the context of current

**10. Estimates, assumptions and discretion in the application of accounting principles (Continued)**

market information but also as a best possible estimate mean that the assessment of impairment may differ from actual circumstances, and despite good forecasts in the reporting year an impairment requirement may be necessary in subsequent years.

For items of property plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are reported as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

STADA makes valuation allowances on receivables in order to anticipate losses expected in relation to insolvency of customers. The maturity structure of the net receivables and past experience in relation to bad debts as well as the customers' credit-worthiness are used as the criteria for evaluating the appropriateness of the valuation allowances. This does not, however, exclude the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial position of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in CEE countries.

STADA operates in various countries and is obliged to pay respective income tax expenses in each tax jurisdiction. In order to calculate the income tax provisions and the deferred taxes in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain items according to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on actual and deferred taxes and thus on the business, financial and earnings situation of the Group in the respective period. Furthermore, increasing importance within the STADA Group is being allotted to a comprehensive tax transfer-pricing model for the payment of intercompany services. Potential risks of non-recognition of these transfer prices for tax purposes is limited by way of the introduction of corresponding agreement procedures and a comprehensive definition of transfer prices in the form of a Group guideline.

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows, which are already fixed or calculated by means of the current yield curve using so-called "forward rates", are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the reporting date.

The amount of pension obligations from defined benefit plans is calculated using actuarial methods. This procedure is based upon assumptions, among other things, regarding the discount rate, life expectancy and future salary and pension increases. Changes to these assumptions can significantly influence the amount of future pension costs. For German Group companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2018G mortality tables. Outside Germany, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. The discount rate shall be based on long-term rates of return on high quality corporate bonds with fixed interest rates at the reporting date. In countries where there is no liquid market in such corporate bonds, the discount rate is determined on the basis of market yields on government bonds.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. STADA creates provisions if there is a present external obligation and a probable outflow of resources, i.e. if it is more likely to occur than not. Provisions in relation to pending legal disputes are created based on how STADA estimates the prospects of success of these methods. The



## Notes to the Consolidated Financial Statements (Continued)

### 10. Estimates, assumptions and discretion in the application of accounting principles (Continued)

determination of provisions for damages is also associated with substantial estimates and can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual expenses for returns may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g. discounts to health insurance organizations) prescribed by law and due to other regulatory requirements. These are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.

### Notes to the Consolidated Income Statement

#### 11. Sales

Sales at STADA primarily resulted from the supply of products and, to a much lesser extent, from license revenues. For information on the reporting of sales, please refer to the details included in the Accounting Policies.

In financial year 2018, there was an increase in sales based primarily on strong sales development in the Belgian, Italian, German and Serbian generics business as well as in the branded products business in the United Kingdom and Germany. The French and Russian generics business as well as the Russian and Italian branded products business had a negative effect. Exchange rate effects and portfolio changes as an adjustment to the previous year's figure had a total influence of €95.4 million on sales in the reporting year. For information on how sales are broken down according to segments, please refer to "Segment reporting" in Note 44.

#### 12. Cost of sales

Cost of sales is divided into the following items:

in k €	2018	2017
Material expenses . . . . .	906,940	930,042
Impairment, depreciation and amortization . . . . .	106,505	106,900
Expenses from inventory write-downs . . . . .	35,658	43,215
Remaining cost of sales . . . . .	90,390	97,837
<b>Total . . . . .</b>	<b>1,139,493</b>	<b>1,177,994</b>

Impairment, depreciation and amortization in the amount of €106.5 million (previous year: €106.9 million) mainly included amortization on intangible assets, the ownership of which represents a necessary condition for the marketing of the products manufactured—in particular drug approvals.

Expenses from inventory write-downs included inventories written down to net realizable value netted with reversals. The reversals amounted to €9.4 million in financial year 2018 (previous year: €7.2 million).

#### 13. Selling expenses

In addition to the costs for sales departments and the sales force, selling expenses also comprise the costs for advertising and marketing activities including samples for doctors. They also include all costs for logistics that occur for completed final products. Discounts in the form of free retail packages, so-called discounts in kind—insofar as this is possible under the legal regulations in a national market—are not included. The resulting expenses are reported as a part of cost of sales.

In the reporting year, marketing expenses in the amount of €239.0 million (previous year: €220.7 million) corresponded to a share of 44% in selling expenses (previous year: 43%). In addition, selling expenses included depreciation in the amount of €7.4 million (previous year: €7.3 million).

## Notes to the Consolidated Financial Statements (Continued)

### 14. General and administrative expenses

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

In 2018, the general and administrative expenses included depreciation in the amount of €6.1 million (previous year: €6.5 million).

General and administrative expenses decreased in the reporting year by a total of €16.0 million. The decrease primarily resulted from decreased consulting expenses in connection with various restructuring processes in financial year 2017.

### 15. Research and development expenses

For information on the composition of research and development expenses, please refer to the details included in the Accounting Policies.

In financial year 2018, research and development expenses increased by €4.8 million compared to the previous year.

The research and development expenses included depreciation in the amount of €2.4 million (previous year: €2.2 million). Development costs for new products in the amount of €20.4 million (previous year: €21.4 million) were capitalized in financial year 2018 (see the Notes on the item “Intangible Assets”).

### 16. Other income

Other income is divided into the following items:

in k €	2018	2017
Income from write-ups . . . . .	15,899	13,995
Income from the reversal of impairments on receivables . . . . .	10,636	7,234
Income from received insurance compensations . . . . .	9,874	2,630
Income from the disposal of non-current assets . . . . .	720	2,026
Remaining other income . . . . .	47,251	15,380
<b>Total . . . . .</b>	<b>84,380</b>	<b>41,265</b>

Income from write-ups in financial year 2018 is made up of many individual items in the Group companies and amounted to €1.3 million for the Generics segment and €14.6 million for the Branded Products segment. The write-ups relate for the most part to various pharmaceutical approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

The remaining other income mainly includes income from the capital consolidation of BIOCEUTICALS Arzneimittel AG which is regarded as a special item in the financial year as well as other income that cannot be directly allocated to the functional costs and which are made up of many immaterial individual items in the Group companies.

### 17. Other expenses

The breakdown of other expenses is as follows:

in k €	2018	2017
Impairment losses on non-current assets excluding goodwill . . . . .	42,166	60,356
Expenses from valuation allowances in accounts receivable . . . . .	15,523	44,913
Losses from the disposal of non-current assets . . . . .	2,140	7,157
Currency translation expenses . . . . .	1,888	1,966
Remaining other expenses . . . . .	41,387	88,868
<b>Total . . . . .</b>	<b>103,104</b>	<b>203,260</b>

## Notes to the Consolidated Financial Statements (Continued)

### 17. Other expenses (Continued)

Other expenses include impairment losses in the amount of €42.2 million (previous year: €60.4 million) that in the reporting year exclusively relate to impairment losses on non-current assets excluding goodwill in the reporting year as well as the largest single item attributable to Fultium® D3 vitamin drops, as was the case in the previous year. The impairment losses relate for the most part to various pharmaceutical approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

In other expenses, in the reporting year there are expenses from impairments on receivables in the amount of €15.5 million (previous year: €44.9 million) which for the most part relate to impairments due to payment defaults of customers in Russia.

Losses on the disposal of non-current assets decreased in the reporting year by €5.0 million and resulted in the previous year for the most part from the following situation: For the subsidiary STADA Vietnam J.V., a contract was concluded on the sale of the shares held by STADA in this company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale. In connection with the loss of control in this company, there was a loss in the total of €5.5 million. This resulted in a positive effect from the reversal of the currency translation reserve in the amount of €1.2 million.

In remaining other expenses, net currency translation expenses in the amount of €1.9 million (previous year: €2.0 million), made up of currency translation income of €45.6 million (previous year: €32.3 million) and currency translation expenses of €47.5 million (previous year: €34.3million) was recognized. This development was based in particular on adverse developments in the significant currencies in the CIS region.

Additionally, the item remaining other expenses included personell expenses in the amount of €5.8 million (previous year: €20.8 million) which in the reporting year resulted mainly from severance payments to former Executive Board members as well as expenses due to changes in management. The regular personnel expenses are appropriately allocated to the respective specialist departments. Primarily, the severance payments affected employees whose regular personnel costs were recorded under administrative costs.

During the previous year, the item for remaining other expenses included consulting services in connection with the 2017 takeover by Bain Capital and Cinven in the amount of €45.0 million, which were considered a special item in the financial year. Other consulting expenses are appropriately allocated to the respective specialist departments.

### 18. Financial result

The **result from investments measured at equity** in financial year 2018 relates to the companies AELIA SAS, BIOCEUTICALS Arzneimittel AG, Dialogfarma LLC as well as Pharm Ortho Pedic SAS accounted for using the equity method. BIOCEUTICALS Arzneimittel AG was consolidated as an associate until September 30, 2018, following a successful increase in shareholdings, it has been consolidated as a subsidiary since September 30, 2018.

**Investment income** primarily relates to profit distributions from companies not included in the Consolidated Financial Statements.

**Financial income and financial expenses** are composed of the interest result and other financial income and other financial expenses.

## Notes to the Consolidated Financial Statements (Continued)

### 18. Financial result (Continued)

The interest result developed as follows:

in k €	2018	2017
Interest income . . . . .	5,624	3,462
Interest expense . . . . .	44,565	50,475
<b>Interest result . . . . .</b>	<b>38,941</b>	<b>47,013</b>

thereof from financial instruments of the valuation categories in accordance with IFRS 9:

• loans and receivables (AC) . . . . .	2,079	3,462
• financial assets at fair value through other comprehensive income (FVOCI) . . .	– 1,564	n/a
• financial assets and liabilities at fair value through profit and loss (FVPL) . . . .	– 5,910	– 14,258
• financial liabilities measured at amortized costs (AC) . . . . .	– 36,158	– 35,304

Interest income for the financial year 2018 includes the compounding effect for the sale price contractually agreed for December 31, 2019 for the shares held in Company STADA Vietnam J.V.

In addition, the interest result in financial year 2018 included a net interest expense from other non-current provisions, which comprises interest income on plan assets as well as interest expenses from pension obligations and other non-current provisions, in the amount of €0.8 million (previous year: €0.9 million).

In financial year 2018, STADA Arzneimittel AG refinanced itself at interest rates of between 0.95% p.a. and 2.3% p.a. (previous year: between 0.8% p.a. and 4.23% p.a.). In addition, the Group refinanced itself at interest rates between 2.84% p.a. and 3.19% p.a. (previous year: between 2.9% p.a. and 5.5% p.a.). As of the reporting date December 31, 2018, the weighted average interest rate for non-current financial liabilities was approximately 3.43% p.a. (previous year: approximately 25.51% p.a.). The average interest rate for current financial liabilities was 1.97% p.a. as of the balance sheet date (previous year: 1.78% p.a.). For the Group, the weighted average interest rate for financial liabilities was approximately 2.97% p.a. (previous year: approximately 1.79% p.a.).

Borrowing costs capitalized as part of the cost of qualifying assets amounted to €2.6 million in financial year 2018 (previous year: €1.5 million). A capitalization rate of 2.5% for intangible assets (previous year: 1.6%) was taken as a basis.

Other financial income and other financial expenses consist of the following:

in k €	2018	2017
<b>Other financial income . . . . .</b>	<b>—</b>	<b>167</b>
thereof		
• from the measurement of financial instruments . . . . .	—	167
• from the disposal of financial instruments . . . . .	—	—
<b>Other financial expenses . . . . .</b>	<b>—</b>	<b>—</b>
thereof		
• from the measurement of financial instruments . . . . .	—	—
• from the disposal of financial instruments . . . . .	—	—

In the previous year, the result from the valuation of financial instruments resulted primarily from interest rate/currency swaps measured at fair value through profit or loss which expired in the fourth quarter of 2017 as planned.

### 19. Income tax expenses

The item income tax expenses includes taxes on income and earnings paid or owed in the individual countries as well as deferred tax liabilities. Other taxes that cannot be meaningfully attributed to the sales, administration or research and development functions are included in other expenses.

## Notes to the Consolidated Financial Statements (Continued)

### 19. Income tax expenses (Continued)

Actual income tax expenses recognized in the income statement can be divided according to timing as follows:

in k €	2018	2017
<b>Actual income tax expenses</b> . . . . .	<b>68,502</b>	<b>61,603</b>
Tax expense in the current period . . . . .	54,932	59,677
Tax expense from previous periods . . . . .	13,720	2,490
Tax income from previous periods . . . . .	150	564

Deferred taxes recognized in the income statement are made up of the following:

in k €	2018	2017
<b>Deferred taxes</b> . . . . .	<b>– 36,160</b>	<b>– 8,618</b>
• from temporary differences . . . . .	– 32,367	– 10,909
• from loss/interest carryforwards . . . . .	– 3,793	2,291

The effective income tax rate amounted to 9.4% for financial year 2018. The effective income tax rate in the previous year was 35.9%. The nominal income tax rate amounted to 28.3% in financial year 2018 for STADA Arzneimittel AG in Germany. This includes corporate tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% as well as trade income tax with an assessment rate of 357%. The nominal income tax rate of STADA Arzneimittel AG is thus unchanged as compared to the previous year.

For temporary differences from undistributed earnings of subsidiaries in the amount of €22.4 million, no deferred tax liabilities were established, because these profits will be reinvested for an indefinite period.

The following overview explains how the effective income tax expense reported in the income statement was derived from the expected income tax expense. The expected income tax expense is calculated by applying the nominal tax rate of a corporation headquartered in Bad Vilbel to earnings before taxes. The tax effects of the respective tax rates to be applied locally depending on their applicable national and legal forms are reported in a separate reconciliation.

in k €	2018	2017
<b>Earnings before taxes</b> . . . . .	<b>342,874</b>	<b>147,746</b>
Nominal income tax rate of STADA Arzneimittel AG (in %) . . . . .	28.3%	28.3%
<b>Expected income tax expense</b> . . . . .	<b>97,102</b>	<b>41,842</b>
Deviation in local tax rate . . . . .	– 14,867	– 12,356
Tax effects from loss carryforwards, tax credits, interest carryforwards and prior-year taxes . . . . .	6,537	8,456
Effects from tax rate changes . . . . .	22	– 89
Tax effects from non-deductible expenses and tax-free earnings . . . . .	9,604	9,187
Tax effects from deconsolidation . . . . .	—	5,788
Tax effect of the negative difference according to IFRS 3 . . . . .	– 7,829	—
Tax effect from the fiscal unity with the shareholder . . . . .	– 56,597	—
Other tax effects . . . . .	– 1,630	157
<b>Income tax expense shown on the income statement</b> . . . . .	<b>32,342</b>	<b>52,985</b>
Effective income tax rate (in %) . . . . .	9.4%	35.9%

As in the previous year, tax effects from loss/interest carryforwards resulted for the most part from unusable interest expenses due to the interest barrier rule that was newly-introduced in the United Kingdom.

The tax effects from the deconsolidation resulted in the previous year from the change of control at STADA Vietnam J.V. and the change of status associated with it.

The tax effect from the negative difference from IFRS 3 is attributable to the acquisition of control and the associated change of status of BIOCEUTICALS AG.



## Notes to the Consolidated Financial Statements (Continued)

### 19. Income tax expenses (Continued)

The tax expense of STADA Arzneimittel AG in the financial year was mainly influenced by the conclusion of a domination and profit and loss transfer agreement with the shareholder Nidda Healthcare GmbH. This resulted in a change in the tax status of STADA Arzneimittel AG, which has been included in the single tax entity of Nidda BondCo GmbH with its tax results since 2018 and must pay corporate tax exclusively for 20/17 of the compensation payment to be made to the outside shareholders. No tax allocation agreement was concluded with Nidda Healthcare GmbH as the direct parent company and/or Nidda BondCo GmbH as the indirect parent company. Income taxes are therefore reported in accordance with the formal approach. Accordingly, all deferred taxes of the former German controlling company STADA Arzneimittel AG were transferred to the new controlling company Nidda BondCo GmbH. Nidda BondCo GmbH also has to pay corporation tax, solidarity surcharge and trade tax on the taxable income of STADA Arzneimittel AG, while STADA Arzneimittel AG is responsible for the taxation of recurring compensation payments.

The actual income tax expenses and deferred taxes recognized in the balance sheet were as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Income tax receivables . . . . .	8,545	14,346
Income tax liabilities . . . . .	79,723	69,663
 in k €	 2018	 2017
Deferred tax assets . . . . .	26,337	27,571
Deferred tax liabilities . . . . .	83,935	116,481
Deferred taxes as of December 31 . . . . .	-57,598	-88,910
Difference compared to previous year . . . . .	-31,312	6,692
thereof		
• recognized in income . . . . .	-36,160	8,618
• recognized through other comprehensive income . . . . .	-235	-4,956
• acquisitions/disposals/changes in the scope of consolidation . . . . .	5,728	-4,774
• reclassifications in accordance with IFRS 5 . . . . .	—	4,916
• reclassifications as a result of the implementation of the new standards IFRS 9 and IFRS 15 . . . . .	-220	—
• currency translation differences . . . . .	-425	2,888

Deferred taxes result from the following balance sheet items and loss carryforwards:

in € k	Dec. 31, 2018 Deferred tax assets	Dec. 31, 2017 Deferred tax assets	Dec. 31, 2018 Deferred tax liabilities	Dec. 31, 2017 Deferred tax liabilities
Intangible assets . . . . .	528	3,078	99,589	117,434
Property, plant and equipment . . . . .	1,435	1,764	6,814	7,524
Financial assets . . . . .	454	791	10	591
Inventories . . . . .	12,511	14,081	995	1,201
Receivables . . . . .	2,037	8,484	249	374
Other assets . . . . .	919	2,956	13	41
Other non-current provisions . . . . .	2,501	2,438	—	708
Other provisions . . . . .	3,391	3,337	7,288	4,528
Liabilities . . . . .	13,817	1,736	851	1,184
Loss carryforwards . . . . .	20,618	6,010	—	—
<b>Total . . . . .</b>	<b>58,211</b>	<b>44,675</b>	<b>115,809</b>	<b>133,585</b>
Offsetting . . . . .	31,874	-17,104	31,874	-17,104
<b>Deferred taxes as per balance sheet . . . . .</b>	<b>26,337</b>	<b>27,571</b>	<b>83,935</b>	<b>116,481</b>

Deferred tax liabilities reported by STADA resulted, among other things, from deferred taxes in the context of purchase price allocations carried out under IFRS 3. The reduction in deferred tax liabilities from intangible assets compared with the previous year was primarily a result of scheduled amortization of intangible assets with purchase price allocations measured in accordance with IFRS 3, as well as from

## Notes to the Consolidated Financial Statements (Continued)

### 19. Income tax expenses (Continued)

impairments on such assets. The increase in loss carryforwards results in particular from the first-time inclusion of BIOCEUTICALS AG as a subsidiary due to the change in status.

Tax advantages that are expected from the future utilization of tax loss carryforwards are reported under “Tax loss carryforwards”, insofar as their utilization is probable. Tax loss carryforwards capitalized as of the reporting date on the December 31, 2018 reporting date amounted to €72.7 million in financial year 2018 (previous year: €25.7 million).

Tax effects from loss and interest carryforwards led in the financial year to an increase in the income tax expense in the amount of €1.2 million (previous year: increase in expenses from taxes on profits of €3.1 million). This development was primarily influenced by British tax law which, from April 1, 2017 for the first time limits the deduction of operating expenses for interest (interest barrier) which led to an interest carryforward for which no deferred tax assets were established.

The future usable tax loss carryforwards and similar items are listed in the following chart according to their expiry date:

<u>in € k</u>	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Loss carryforward expiry date within		
• 1 year	—	865
• 2 years	—	248
• 3 years	—	—
• 4 years	—	23
• 5 years	1,802	5,914
• more than 5 years	—	1,168
• unlimited carryforward	70,885	17,455

No deferred taxes were recognized for the following tax loss carryforwards and similar items as it is not probable that they will be realized in the foreseeable future:

<u>in k €</u>	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Expiry date for loss carryforwards and similar items within		
• 1 year	14	250
• 2 years	—	692
• 3 years	—	642
• 4 years	—	789
• 5 years	54	284
• more than 5 years	—	10,223
• unlimited carryforward	13,147	17,872
Temporary differences	—	—

### 20. Income attributable to non-controlling interests

<u>in k €</u>	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
<b>Earnings after taxes</b>	<b>310,532</b>	<b>94,761</b>
• thereof distributable to shareholders of STADA Arzneimittel AG (net income)	306,927	85,323
• thereof distributable to non-controlling interests	3,605	9,438

Profit distributable to non-controlling shareholders pertains to the subsidiaries BIOCEUTICALS Arzneimittel AG, NorBiTec GmbH, Hemofarm Banja Luka, Hemomont, NorBiTec GmbH, Pymepharco, and STADA Pharmaceuticals (Beijing).

## Notes to the Consolidated Financial Statements (Continued)

### 21. Earnings per share

The basic earnings per share were as follows:

Earnings per share	2018	2017
Net income (in k €) . . . . .	306,927	85,323
Adjustment . . . . .	—	—
<b>Adjusted net income (basic) (in k €) . . . . .</b>	<b>306,927</b>	<b>85,323</b>
Average number of registered shares <sup>1</sup> issued (in unit shares) . . . . .	62,342,440	62,342,440
Average number of treasury shares (in unit shares) . . . . .	84,298	84,389
<b>Adjusted average number of shares (basic) (in unit shares) . . . . .</b>	<b>62,258,142</b>	<b>62,258,051</b>
<b>Basic/diluted earnings per share (in €) . . . . .</b>	<b>4.93</b>	<b>1.37</b>

Basic/diluted earnings per share are calculated by dividing the adjusted net income distributable to the shareholders of STADA Arzneimittel AG by the time-weighted average number of registered shares with restricted transferability outstanding<sup>1</sup>.

### 22. Number of employees and personnel expenses

The average number of employees at STADA by functional area and functional sub-area is as follows:

	2018	2017
Marketing/Sales . . . . .	3,175	3,102
Logistics . . . . .	583	434
Finance/IT . . . . .	714	724
Production/Quality Assurance . . . . .	4,466	4,675
Procurement/Supply Chain . . . . .	314	338
Product Development . . . . .	570	618
Administration . . . . .	425	941
<b>Entire Group . . . . .</b>	<b>10,247</b>	<b>10,832</b>
<b>Personnel expenses (in € million) . . . . .</b>	<b>359.3</b>	<b>387.5</b>

The average number of employees decreased in the reporting year by 5% to 10,247 (previous year: 10,832), mainly due to the deconsolidation of STADA Vietnam J.V. as of November 30, 2017. As of the reporting date, the number of employees of the STADA Group increased in 2018 by 2% to 10,416 (previous year: 10,176). This increase was mainly due to the consolidation of the German company NorBiTec GmbH in the course of the majority takeover of BIOCEUTICALS Arzneimittel AG and the Hungarian STADA Hungary LLC. In addition, the increase in the number of employees as of the reporting date was due to the expansion of the marketing and sales division of the German subsidiary STADAPHARM GmbH and the Spanish subsidiary Laboratorio STADA S.L.

Personnel expenses, which are included in the expenses of the individual functional areas according to their functional relevance, increased in financial year 2018 to €359.3 million (previous year: €387.5 million). The decrease resulted mainly from the decrease in the number of employees in Russia and the deconsolidation of STADA Vietnam J.V. as of November 30, 2017.

<sup>1</sup> On August 26, 2016, the STADA General Meeting resolved to eliminate restrictions on the transferability of registered shares by means of a change to the Articles of Incorporation. The change to the Articles of Incorporation was entered in the commercial register on December 9, 2016 and took effect on this date. Therefore, since that time, the authorization from approved capital pursuant to Section 6 (1) of the Articles of Incorporation relates to registered shares with no transferability restrictions.

## Notes to the Consolidated Financial Statements (Continued)

### 23. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses were incurred on intangible assets and property plant and equipment as follows:

in k €	2018	2017
<b>Depreciation/amortization</b> . . . . .	<b>122,531</b>	<b>122,865</b>
Intangible assets . . . . .	87,984	86,470
Property, plant and equipment . . . . .	34,547	36,395
<b>Impairment losses</b> . . . . .	<b>42,166</b>	<b>60,356</b>
Intangible assets . . . . .	41,957	55,681
thereof		
• goodwill . . . . .	—	—
Property, plant and equipment . . . . .	209	4,268
thereof		
• land and buildings . . . . .	3	3,242
• plant and machinery . . . . .	95	268
• other fixtures and fittings, tools and equipment . . . . .	7	332
• down payments . . . . .	104	426
Financial assets . . . . .	—	407
thereof		
• investments . . . . .	—	407

While depreciation and amortization are included in expenses of the individual functional areas according to their functional relevance, there is a presentation within other expenses for impairment losses.

The impairment of intangible assets concerns various drug approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

There were no impairment losses in the financial year.

Depreciation and amortization decreased by 0.3% compared to the previous year. More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

## Notes to the Consolidated Financial Statements (Continued)

### Notes to the Consolidated Balance Sheet

#### 24. Intangible assets

Intangible assets developed as follows in financial year 2018:

2018 in k €	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
<b>Cost as of Jan. 1, 2018</b>	<b>1,912,869</b>	<b>470,338</b>	<b>219,261</b>	<b>2,602,468</b>
Currency translation	– 26,897	– 8,870	– 2,532	– 38,299
Changes in the scope of consolidation	—	—	—	—
Additions	224,308	—	62,472	286,780
Additions from business combinations in accordance with IFRS 3	87,186	—	—	87,186
Disposals	6,734	—	2,298	9,032
Transfers	23,565	—	– 23,570	– 5
<b>Cost as of Dec. 31, 2018</b>	<b>2,214,297</b>	<b>461,468</b>	<b>253,333</b>	<b>2,929,098</b>
<b>Accumulated depreciation as of Jan. 1, 2018</b>	<b>975,238</b>	<b>73,861</b>	<b>79,027</b>	<b>1,128,126</b>
Currency translation	– 9,891	– 1,145	– 965	– 12,001
Changes in the scope of consolidation	—	—	—	—
Scheduled amortization	87,984	—	0	87,984
Impairment losses	37,501	—	4,456	41,957
Disposals	6,577	—	1,698	8,275
Write-ups	14,674	—	1,224	15,898
Transfers	197	—	– 197	—
<b>Accumulated amortization as of Dec. 31, 2018</b>	<b>1,069,778</b>	<b>72,716</b>	<b>79,399</b>	<b>1,221,893</b>
<b>Residual carrying amounts as of Dec. 31, 2018</b>	<b>1,144,519</b>	<b>388,752</b>	<b>173,934</b>	<b>1,707,205</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b>	<b>937,631</b>	<b>396,477</b>	<b>140,234</b>	<b>1,474,342</b>

Additions from business combinations in accordance with IFRS 3, which relate to the fair value calculated in the context for the purchase price allocations, resulted in the reporting year from the acquisition of BIOCEUTICALS Arzneimittel AG and NorBiTec GmbH.

The umbrella brand Hemofarm which was capitalized in 2006 in the context of the acquisition of the Hemofarm group is included in capitalized trademarks recognized as an intangible asset with an indefinite useful life, because STADA intends to make continuing use of it. As at December 31, 2018, this umbrella brand has a carrying amount of €39.0 million (previous year: €38.9 million). In the context of the impairment test of December 31, 2018, a royalty rate of 2% and a discount rate of 13.7% were used. There was no necessity for impairment in the reporting year. In addition, the change compared to the previous year figure of €0.1 million is attributable to different exchange rates.

Furthermore, in the context of the control achieved over Pymepharco in 2013, the umbrella brand Pymepharco was capitalized as an intangible asset with an indefinite useful life as a trademark, as STADA intends to continue to use the trademark. As at December 31, 2018, this has a carrying amount of €8.8 million (previous year: €8.6 million). The change is a result of different exchange rates. In the context of the impairment test of December 31, 2018, a royalty rate of 2% and a discount rate of 14.3% were used. There was no necessity for impairment for the reporting year.

As part of the acquisition of Laboratorio Vannier, the umbrella brand Vannier was capitalized as an intangible asset with an indefinite useful life as a trademark as STADA intends to continue to use the trademark. In the context of the impairment test of December 31, 2018, a royalty rate of 2% and a discount rate of 17.8% were used. An impairment loss of €0.2 million was recognized for the reporting year. As at December 31, 2018, the umbrella brand was completely written off and now has a carrying amount of €0.0 million (previous year: €0.2 million).



## Notes to the Consolidated Financial Statements (Continued)

### 24. Intangible assets (Continued)

Borrowing costs capitalized in 2018 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to €2.6 million (previous year: €1.5 million). In financial year 2018, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 2.5% (previous year: 1.6%).

Development costs of €23.7 million were capitalized in the reporting year (previous year: €23.9 million). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years). STADA immediately recognizes development costs that do not qualify for capitalization as expenses in the period in which they are incurred (see Note 15.). In financial year 2018, these development costs amounted to of €72.3 million (previous year: €67.5 million).

Amortization of intangible assets mainly relates to regulatory drug approvals as well as trademarks and is recognized in the income statement primarily under cost of sales. In the reporting year, this related to an amount of €88.0 million (previous year: €86.5 million).

In financial year 2018, impairments on intangible assets were recognized in the total amount of €42.0 million (previous year: €55.7 million). As in the previous year, no valuation allowances on goodwill were recorded in the reporting year.

Details on changes in the scope of consolidation can be found in the Note on the scope of consolidation (see Note 5.).

## Notes to the Consolidated Financial Statements (Continued)

### 24. Intangible assets (Continued)

Intangible assets developed as follows in the previous year:

2017 in k €	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
<b>Cost as of Jan. 1, 2017</b> . . . . .	<b>1,907,273</b>	<b>478,826</b>	<b>214,526</b>	<b>2,600,625</b>
Currency translation . . . . .	– 40,684	– 9,256	– 1,850	– 51,790
Changes in the scope of consolidation . . . . .	– 26,584	– 5,097	—	– 31,681
Additions . . . . .	12,171	—	44,856	57,027
Additions from business combinations in accordance with IFRS 3 . . . . .	248	80	—	328
Disposals . . . . .	4,797	—	1,050	5,847
Reclassifications from non-current assets and disposal groups held for sale . . . . .	30,387	5,785	—	36,172
Reclassifications to non-current assets and disposal groups held for sale . . . . .	2,395	—	—	2,395
Transfers . . . . .	37,250	—	– 37,221	29
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>1,912,869</b>	<b>470,338</b>	<b>219,261</b>	<b>2,602,468</b>
<b>Accumulated depreciation as of Jan. 1, 2017</b> . . . . .	<b>877,124</b>	<b>74,242</b>	<b>66,898</b>	<b>1,018,264</b>
Currency translation . . . . .	– 10,638	– 463	– 449	– 11,550
Changes in the scope of consolidation . . . . .	– 8,258	– 608	—	– 8,866
Scheduled amortization . . . . .	86,470	—	—	86,470
Impairment losses . . . . .	42,452	—	13,229	55,681
Disposals . . . . .	3,788	—	574	4,362
Write-ups . . . . .	13,995	—	—	13,995
Reclassifications from non-current assets and disposal groups held for sale . . . . .	7,169	690	—	7,859
Reclassifications to non-current assets and disposal groups held for sale . . . . .	1,375	—	—	1,375
Transfers . . . . .	77	—	– 77	0
<b>Accumulated amortization as of Dec. 31, 2017</b> . . . . .	<b>975,238</b>	<b>73,861</b>	<b>79,027</b>	<b>1,128,126</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>937,631</b>	<b>396,477</b>	<b>140,234</b>	<b>1,474,342</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>1,030,149</b>	<b>404,584</b>	<b>147,628</b>	<b>1,582,361</b>

In 2017, the reclassification of non-current assets and disposal groups held for sale related primarily to the approval of a branded product in Italy.

The following amortization expense is expected for intangible assets in the next five years:

in k €	Expected amortization
2019 . . . . .	96,448
2020 . . . . .	96,033
2021 . . . . .	95,943
2022 . . . . .	97,152
2023 . . . . .	99,136

## Notes to the Consolidated Financial Statements (Continued)

### 24. Intangible assets (Continued)

The following table shows which cash-generating units the capitalized goodwill can be attributed to:

#### Residual carrying amount as of Dec. 31, 2018 in € million

Generics . . . . .	182.3
Branded Products . . . . .	206.5
<b>Total . . . . .</b>	<b><u>388.8</u></b>

In the previous year, the capitalized goodwill for cash-generating units was as follows:

#### Residual carrying amount as of Dec. 31, 2017 in € million

Generics . . . . .	183.7
Branded Products . . . . .	212.8
<b>Total . . . . .</b>	<b><u>396.5</u></b>

In comparison with the previous year, there were changes in the carrying amounts of goodwill which were for the most part exclusively currency related.

In the context of the regular impairment tests for capitalized goodwill of September 30, 2018, the discounted cash flow method was used to determine anticipated cash inflows, applying the following parameters defined for the individual cash-generating units according to segment:

<u>According to segment, defined as cash-generating unit</u>	<u>Growth rates of the research phase 2018 in %</u>	<u>WACCs 2018 in %</u>
Generics . . . . .	1.4%	11.7%
Branded Products . . . . .	1.6%	12.3%

In the previous year, the applied parameters were as follows:

<u>According to segment, defined as cash-generating unit</u>	<u>Growth rates of the research phase 2017 in %</u>	<u>WACCs 2017 in %</u>
Generics . . . . .	1.3%	9.6%
Branded Products . . . . .	1.5%	10.0%

The discounted cash flow method is used to determine the value in use of the cash-generating units, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. This detailed planning period reflects the assumptions for short and medium-term market developments. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% of the expected long-term inflation rate is assumed. In the previous year a specific estimated growth rate in the amount of the expected long-term inflation rate was assumed for the period after this three-year detailed planning horizon. The detailed planning phase for determining the value in use are based on assumptions from past experience expanded to include current developments and verified using external market data and analyses. The most important assumptions include the development of future sales prices, amounts and costs, the influence of the regulatory market environment, investments, market shares, exchange rates and growth rates. Significant changes to the above-described assumptions would influence the determination of the value in use of the cash-generating units. The discount rates applied are determined on the basis of external factors derived from the market and adjusted for the respective predominant risks of the cash-generating units.

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. A sensitivity analysis was therefore carried out for the different cash-generating units with a 1.0 percentage points higher discount rate, a decrease in the growth rate of 0.5 percentage points and a decrease in EBIT of 10.0 percentage points. Using these assumptions, there was also no necessity for an impairment to any cash-generating unit.

## Notes to the Consolidated Financial Statements (Continued)

### 25. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2018:

2018 in k €	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
<b>Cost as of Jan. 1, 2018</b> . . . . .	<b>263,843</b>	<b>248,112</b>	<b>114,885</b>	<b>29,301</b>	<b>656,141</b>
Currency translation . . . . .	– 2,145	– 4,913	– 2,125	– 868	– 10,051
Changes in the scope of consolidation . . . . .	—	—	– 138	—	– 138
Additions . . . . .	3,249	6,893	6,025	36,814	52,981
Additions from business combinations in accordance with IFRS 3 . . . . .	1,432	5,794	936	374	8,536
Disposals . . . . .	619	6,798	6,235	691	14,343
Transfers . . . . .	5,766	12,256	4,087	– 22,104	5
<b>Cost as of Dec. 31, 2018</b> . . . . .	<b>271,526</b>	<b>261,344</b>	<b>117,435</b>	<b>42,826</b>	<b>693,131</b>
<b>Accumulated depreciation as of Jan. 1, 2018</b> .	<b>95,452</b>	<b>148,183</b>	<b>79,327</b>	<b>441</b>	<b>323,403</b>
Currency translation . . . . .	– 444	– 2,873	– 832	—	– 4,149
Changes in the scope of consolidation . . . . .	—	—	– 47	—	– 47
Depreciation/amortization . . . . .	6,721	17,811	10,015	—	34,547
Impairment losses . . . . .	3	95	7	104	209
Disposals . . . . .	610	6,463	5,226	—	12,299
Write-ups . . . . .	—	—	—	—	—
Transfers . . . . .	– 23	339	– 316	—	—
<b>Accumulated amortization as of Dec. 31, 2018</b> . . . . .	<b>101,099</b>	<b>157,092</b>	<b>82,928</b>	<b>545</b>	<b>341,644</b>
<b>Residual carrying amounts as of Dec. 31, 2018</b> . . . . .	<b>170,427</b>	<b>104,252</b>	<b>34,507</b>	<b>42,281</b>	<b>351,467</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>168,391</b>	<b>99,929</b>	<b>35,558</b>	<b>28,860</b>	<b>332,738</b>

Additions from business combinations refer to the companies BIOCEUTICALS Arzneimittel AG and NorBiTec GmbH, which were included in the group of consolidated companies.

Property, plant and equipment included assets from finance leases, primarily relating to cars and trucks, in the amount of €5.3 million (previous year: €4.4 million), which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since been subjected to scheduled depreciation.

As in the previous year, no borrowing costs were capitalized for property, plant and equipment in financial year 2018.

## Notes to the Consolidated Financial Statements (Continued)

### 25. Property, plant and equipment (Continued)

Property, plant and equipment developed as follows in the previous year:

2017 in k €	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
<b>Cost as of Jan. 1, 2017</b> . . . . .	<b>250,048</b>	<b>222,875</b>	<b>108,726</b>	<b>33,227</b>	<b>614,876</b>
Currency translation . . . . .	– 526	– 3,840	– 1,197	289	– 5,274
Changes in the scope of consolidation . . . . .	– 10,302	– 9,428	– 889	– 49	– 20,668
Additions . . . . .	2,430	7,858	7,064	38,477	55,829
Additions from business combinations in accordance with IFRS 3 . . . . .	17	—	122	—	139
Disposals . . . . .	1,472	947	6,038	156	8,613
Reclassifications from non-current assets and disposal groups held for sale . . . . .	11,693	9,915	1,010	49	22,667
Reclassifications to non-current assets and disposal groups held for sale . . . . .	2,985	—	—	—	2,985
Transfers . . . . .	14,940	21,679	6,087	– 42,536	170
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>263,843</b>	<b>248,112</b>	<b>114,885</b>	<b>29,301</b>	<b>656,141</b>
<b>Accumulated depreciation as of Jan. 1, 2017</b> .	<b>87,185</b>	<b>131,524</b>	<b>73,452</b>	<b>—</b>	<b>292,161</b>
Currency translation . . . . .	842	– 1,512	– 301	—	– 971
Changes in the scope of consolidation . . . . .	– 1,739	– 5,328	– 565	—	– 7,632
Depreciation/amortization . . . . .	6,795	18,837	10,763	—	36,395
Impairment losses . . . . .	3,242	268	332	426	4,268
Disposals . . . . .	467	712	4,617	– 15	5,781
Write-ups . . . . .	—	—	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	1,527	4,857	559	—	6,943
Reclassifications to non-current assets and disposal groups held for sale . . . . .	2,179	—	—	—	2,179
Transfers . . . . .	246	249	– 296	—	199
<b>Accumulated amortization as of Dec. 31, 2017</b> . . . . .	<b>95,452</b>	<b>148,183</b>	<b>79,327</b>	<b>441</b>	<b>323,403</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>168,391</b>	<b>99,929</b>	<b>35,558</b>	<b>28,860</b>	<b>332,738</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>162,863</b>	<b>91,351</b>	<b>35,274</b>	<b>33,227</b>	<b>322,715</b>



## Notes to the Consolidated Financial Statements (Continued)

### 26. Financial assets

Financial assets developed as follows in financial year 2018:

2018 in k €	Shares in associates and other investments	Other financial assets	Total
<b>Cost as of Jan. 1, 2018</b> . . . . .	<b>19,058</b>	—	<b>19,058</b>
Currency translation . . . . .	57	—	57
Changes in the scope of consolidation . . . . .	– 790	—	– 790
Acquisitions . . . . .	280	—	280
Disposals . . . . .	5	—	5
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	—	—	—
<b>Cost as of Dec. 31, 2018</b> . . . . .	<b>18,600</b>	—	<b>18,600</b>
<b>Accumulated impairments as of Jan. 1, 2018</b> . . . . .	<b>17,080</b>	—	<b>17,080</b>
Currency translation . . . . .	30	—	30
Changes in the scope of consolidation . . . . .	– 791	—	– 791
Impairment losses . . . . .	—	—	—
Disposals . . . . .	—	—	—
Write-ups . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	—	—	—
<b>Accumulated impairments as of Dec. 31, 2018</b> . . . . .	<b>16,319</b>	—	<b>16,319</b>
<b>Residual carrying amounts as of Dec. 31, 2018</b> . . . . .	<b>2,281</b>	—	<b>2,281</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>1,978</b>	—	<b>1,978</b>

Financial assets are the carrying amounts of those shares in non-consolidated investments. There is currently no intention to sell these financial assets.

## Notes to the Consolidated Financial Statements (Continued)

### 26. Financial assets (Continued)

Financial assets developed as follows in the previous year:

2017 in k €	Shares in associates and other investments	Other financial assets	Total
<b>Cost as of Jan. 1, 2017</b> . . . . .	<b>20,243</b>	—	<b>20,243</b>
Currency translation . . . . .	385	—	385
Changes in the scope of consolidation . . . . .	– 407	—	– 407
Acquisitions . . . . .	275	—	275
Disposals . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	– 1,438	—	– 1,438
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>19,058</b>	—	<b>19,058</b>
<b>Accumulated impairments as of Jan. 1, 2017</b> . . . . .	<b>18,007</b>	—	<b>18,007</b>
Currency translation . . . . .	509	—	509
Changes in the scope of consolidation . . . . .	– 407	—	– 407
Impairment losses . . . . .	407	—	407
Disposals . . . . .	– 2	—	– 2
Write-ups . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	– 1,438	—	– 1,438
<b>Accumulated impairments as of Dec. 31, 2017</b> . . . . .	<b>17,080</b>	—	<b>17,080</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>1,978</b>	—	<b>1,978</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>2,236</b>	—	<b>2,236</b>

### 27. Investments measured at equity

The disclosure as of the reporting date related to the accounting of shares in the associates STADA Vietnam J.V. as well as Pharm Ortho Pedic SAS, AELIA SAS and Dialogfarma LLC using the equity method.

Due to the purchase of additional shares and the associated acquisition of control, the former associate BIOCEUTICALS Arznei-mittel AG was included in the Consolidated Financial Statements as a subsidiary since September 30, 2018.

Investments measured at equity developed as follows in financial year 2018 compared with the previous year:

in k €	2018	2017
<b>As of Jan. 1</b> . . . . .	<b>41,528</b>	<b>13,872</b>
Status change of BIOCEUTICALS Arzneimittel AG . . . . .	– 15,026	—
Status change of STADA Vietnam J.V. . . . .	—	25,352
Interest rate effect STADA Vietnam J.V. . . . .	3,442	—
Dividend distributions . . . . .	– 9,098	—
Results from associates . . . . .	3,722	2,304
<b>As of Dec. 31</b> . . . . .	<b>24,568</b>	<b>41,528</b>

In financial year 2018, the decrease in investments accounted for at equity resulted mainly from the exclusion of BIOCEUTICALS Arzneimittel AG as an associate.

Interest rate effects related exclusively to STADA Vietnam J.V. because the equity carrying amount of STADA Vietnam J.V. corresponds to the contractually agreed selling price for the sale on December 31, 2019 of the shares held by STADA under consideration of a relevant discounting effect.

## Notes to the Consolidated Financial Statements (Continued)

### 27. Investments measured at equity (Continued)

Dividend distributions mainly included the dividends paid by STADA Vietnam J.V. for financial year 2018, which represent partial payments in connection with the agreement concluded in the fourth quarter of 2017 to sell the shares in this company held by STADA.

### 28. Trade accounts receivable

Trade accounts receivable are composed as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Trade accounts receivable from third parties . . . . .	634,721	665,191
Trade accounts receivable from non-consolidated companies . . . . .	1,292	1,078
Valuation allowances vis-à-vis third parties . . . . .	– 132,110	– 145,828
Financial assets (FVOCI) . . . . .	12,108	—
<b>Total . . . . .</b>	<b><u>516,011</u></b>	<b><u>520,441</u></b>

As of December 31, 2018, there were no trade accounts receivable due after one year (previous year: €0.2 million).

Collateral exists for a portion of trade accounts receivable whose value was not impaired in the form of bank or corporate guarantees as well as pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers. These are taken into account in the calculation of the default risk.

The new regulations on the classification of financial assets lead to changes in the measurement and disclosure of factoring-capable receivables on the basis of the present business model. These financial assets, which continue to be included in trade accounts receivable, are no longer measured at amortized cost but at fair value through other comprehensive income. Changes in the fair value of these receivables are therefore recognized directly in equity in the FVOCI reserve. In this context, financial assets measured at fair value through other comprehensive income are generally subject to the same impairment model as financial assets measured at amortized cost.

Overall, valuation allowances on trade accounts receivable developed as follows:

in k €	2018	2017
<b>As of Jan. 1 . . . . .</b>	<b><u>145,828</u></b>	<b><u>107,804</u></b>
IFRS 9 adjustments . . . . .	2,655	—
Status as of January 1, 2018 in accordance with IFRS 9 . . . . .	148,483	—
Added . . . . .	14,653	44,332
Utilized . . . . .	10,539	3,154
Reversed . . . . .	9,269	5,340
Additions from business combinations in accordance with IFRS 3 . . . . .	—	74
Changes in the scope of consolidation and reclassifications in accordance with IFRS 5 . . . . .	– 6,802	4
Currency translation differences . . . . .	– 4,416	2,108
<b>As of Dec. 31 . . . . .</b>	<b><u>132,110</u></b>	<b><u>145,828</u></b>

## Notes to the Consolidated Financial Statements (Continued)

### 28. Trade accounts receivable (Continued)

#### Value adjustment matrix

in k €	Credit default rate	Trade accounts receivable, net	ECL IFRS 9	IVA w/o ECL IFRS 9	Trade accounts receivable, gross
<b>Trade accounts receivable</b>					
Cluster 1—low risk . . . . .	0%–1.5%	323,575	1,359	32,562	356,137
Cluster 2—medium risk . . . . .	1.6%–3.0%	176,184	2,093	95,681	271,865
Cluster 3—increased risk . . . . .	3.1%–5.0%	6,539	234	180	6,719
Cluster 4—high risk . . . . .	> 5.0%	0	0	0	0
<b>Total . . . . .</b>		<b><u>506,298</u></b>	<b><u>3,686</u></b>	<b><u>128,423</u></b>	<b><u>634,721</u></b>

For trade accounts receivable, an expected default on receivables is calculated over their terms on the basis of a portfolio-specific default rate. The default rate indicates the probability that a debtor will default within a period of one year. The default rates consider the industry risks and the economic environment of the respective country. Each cluster is allocated to a different bandwidth of expected default rates.

### 29. Return assets

As of December 31, 2018, return assets due after a year amounted to €0.6 million. The return assets relate to anticipated returns in connection with contracts with customers for which reutilization is expected.

### 30. Other financial assets

Other financial assets were composed as follows:

in k €	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Loan receivables . . . . .	506	38	371	20
Outstanding purchase price receivables . . . . .	—	—	—	—
Derivative financial assets . . . . .	2,237	2,237	678	678
Other financial assets . . . . .	10,835	10,480	9,847	9,111
<b>Total . . . . .</b>	<b><u>13,578</u></b>	<b><u>12,755</u></b>	<b><u>10,896</u></b>	<b><u>9,809</u></b>

The derivative financial assets included the positive market values of currency forwards (see Note 47.1.).

The remaining financial assets included receivables from the German factoring business in the amount of €4.6 million and also comprise many insignificant individual items in the Group companies.

As of December 31, 2018, other financial assets included impairments in the amount of €9.7 million (previous year: €11.4 million). The decline is based on payments received for financial assets that had been written-down. There were no outstanding amounts for non-impaired other financial assets as in the previous year.

## Notes to the Consolidated Financial Statements (Continued)

### 31. Other assets

Other assets were composed as follows:

in k €	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Other receivables due from the tax authorities . . . . .	24,819	24,793	16,307	16,280
Prepaid expenses/deferred charges . . . . .	18,152	17,964	14,357	13,858
Assets from overfunded pension plans . . . . .	29	—	16	—
Other assets . . . . .	7,419	6,498	5,973	5,185
<b>Total . . . . .</b>	<b>50,419</b>	<b>49,255</b>	<b>36,653</b>	<b>35,323</b>

Other assets comprised many insignificant individual items in the Group companies.

As of December 31, 2018, other assets included write-downs of €6.5 million. There were no impairments in the previous year.

### 32. Inventories

Inventories can be divided as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Materials and supplies . . . . .	108,541	91,638
Work in progress . . . . .	41,757	26,662
Finished goods and merchandise . . . . .	354,484	372,075
Advance payments to suppliers . . . . .	10,469	8,637
<b>Total . . . . .</b>	<b>515,251</b>	<b>499,012</b>

In financial year 2018, impairments netted with reversals were made on the net realizable value of inventories in the amount of €35.7 million (previous year: €43.2 million), which were already deducted from the amounts shown above through profit and loss. In financial year 2018, reversals here amounted to €9.4 million (previous year: €7.2 million).

### 33. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits as well as current and highly liquid financial investments with a maximum term of 90 days from the purchase date. In certain countries, specific transactions are subject to special monitoring in the context of the requirements of the respective national bank or foreign exchange acts in force. Restrictions on disposal for cash and cash equivalents amount to €2.2 million (previous year: €2.7 million) and, as in the previous year, exclusively relate to cash and cash equivalents in China.

The increase in cash and cash equivalents from €243.2 million as of December 31, 2017 to €343.8 million as of December 31, 2018 resulted from the effects described as part of the explanations of the consolidated cash flow statement. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

### 34. Non-current assets and disposal groups held for sale as well as associated liabilities

As of December 31, 2018, in the STADA Group, an asset held for sale in the amount of €0.1 million presented in a separate line item in the balance sheet.

In the previous year, assets held for sale in the amount of €1.8 million were presented as a separate line item in the balance sheet. This included, among other things, a German subsidiary's building that was held for sale as well as an intangible asset from an Italian subsidiary held for sale.



## Notes to the Consolidated Financial Statements (Continued)

### 35. Equity

Group equity amounted to €1,178.0 million as of the balance sheet date (previous year: €1,006.4 million). This corresponds to an equity ratio of 33.1% (previous year: 31.4%).

#### 35.1. Share capital

As of December 31, 2018, share capital amounted to €162,090,344.00 (December 31, 2017: €162,090,344.00) and was divided into 62,342,440 registered shares (December 31, 2017: 62,342,440), each with an arithmetical share of share capital of €2.60 per share, and fully paid. Each share grants one vote in the General Meeting.

As of December 31, 2018, Authorized Capital and Conditional Capital were comprised as follows:

	Amount in €	Shares	Purpose
Authorized Capital . . . .	81,045,159.00	31,171,215	Increase of share capital (until June 5, 2023)
Conditional Capital			
2013 . . . . .	69,188,340.00	26,610,900	Settlement of options and/or convertible bonds, conversion rights (until June 4, 2018) in connection with issued bonds with warrants and/or, participation rights and/or participating bonds in the total nominal amount of up to €1.0 billion, or in the scope of a guarantee assumed for bonds with warrants and/or convertible bonds, participation rights and/or participating bonds issued by subordinate Group companies
			This authorisation expired on June 5, 2018 and the Executive Board did not make use of it.

#### 35.2. Capital reserve

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in shareholders' equity and particularly include the capital reserve of STADA Arzneimittel AG. Differences from the capital reserve determined in accordance with the provisions of German commercial law primarily result from the recognition at their market value of the shares of STADA Arzneimittel AG newly issued in 2003 as well as the associated treatment of issuing costs, which were deducted from the capital reserve.

Changes in the capital reserve were solely the result of the change in treasury shares in financial year 2018, as was the case in the previous year.

#### 35.3. Retained earnings including net income

Retained earnings including net income comprise net income for the financial year as well as earnings generated in previous periods, provided these were not distributed or transferred under a profit transfer agreement, including amounts transferred to retained earnings. In addition, revaluations of net debt from defined benefit plans that were recognized through other comprehensive income are reported under this item, taking deferred taxes into account.

In the context of measuring the defined benefit obligations as of December 31, 2018, net income in the amount of €0.7 million after deferred taxes—not considering amounts attributable to non-controlling interests—resulted from the remeasurement. It is mainly based on the increase in the discount rate for various defined benefit plans in the STADA Group underlying the measurement of December 31, 2018 in comparison with December 31, 2017. In addition, this position also includes currency translation differences related to the revaluation of net debt recognized in equity from performance-oriented pension plans as well as the deferred taxes they incur which, in financial year 2018, amounted to expenses recognized in equity of €0.03 million.

## Notes to the Consolidated Financial Statements (Continued)

### 35. Equity (Continued)

In the 2018 financial year, retained income also significantly impacted by the increase in shares in the Vietnamese subsidiary Pymepharco Joint Stock Company. In accordance with IFRS 10, the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid have to be recognised in equity and allocated to the owners of the parent.

#### 35.4. Other reserves

Other reserves include results recognized directly in equity. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are reported in the statement of changes in equity under the currency translation reserve.

As part of the application of the new IFRS 9 standard since January 1, 2018, other reserves also include the FVOCI reserve. Changes in the fair value of receivables measured at fair value through other comprehensive income are recorded here with no effect on profit or loss.

The reduction of other reserves compared to the previous year primarily resulted from the depreciation of the Russian ruble and the British pound sterling since December 31, 2017, which has led to expenses from the currency translation of the companies that are accounted for in the Russian ruble and the pound sterling.

#### 35.5. Treasury shares

As of the balance sheet date, the Company held 84,273 treasury shares (previous year: 84,311), each with an arithmetical par value of €2.60, which is equivalent to 0.14% (previous year: 0.14%) of the share capital. In financial year 2018, 38 treasury shares were sold at an average price of €80.92 per share within the scope of an employee stock option program.

#### 35.6. Shares relating to non-controlling shareholders

Shares held by non-controlling interests related as of December 31, 2018 to the minority interests of other shareholders in the subsidiaries BIOCEUTICALS Arzneimittel AG, Hemofarm Banja Luka, Hemomont, NorBiTec GmbH, Pymepharco, and STADA Pharmaceuticals (Beijing).

### 36. Other non-current provisions

Other non-current provisions made by STADA as of the reporting date in Germany and outside Germany include pension provisions and other non-current provisions in the form of anniversary provisions and provisions for working time accounts as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Germany . . . . .	15,397	15,305
Outside Germany . . . . .	18,093	19,988
<b>Total . . . . .</b>	<b>33,490</b>	<b>35,293</b>

In Germany, STADA has plan assets in the form of reinsurance policies, which are used to serve the pension entitlements of a small number of former employees. In addition, there are plan assets for a pension obligation which was outsourced to a pension fund. All further pension entitlements are financed internally in the scope of pension provisions. In addition, there are plan assets in a few foreign subsidiaries in the form of, among other things, insurances, government bonds and securities funds.

In financial year 2018, the plan assets of one international subsidiary exceeded their pension obligations, with the result that these assets in excess were reported under other assets as assets from overfunded pension plans in the amount of €0.03 million (previous year: €0.02 million).

## Notes to the Consolidated Financial Statements (Continued)

### 36. Other non-current provisions (Continued)

Plan assets were divided according to investment type as follows:

<u>Share of plan assets in k €</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents . . . . .	1,258	1,006
Equity securities . . . . .	7,074	6,976
Debt securities . . . . .	22,522	19,696
Real estate . . . . .	1,945	1,945
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	9,082	14,013
Insurance policies . . . . .	72,444	75,297
Other . . . . .	—	—
<b>Total</b> . . . . .	<b><u>114,325</u></b>	<b><u>118,933</u></b>

The plan assets, which have a quoted market price, consist of the following:

<u>Share of plan assets (quoted market price) in k €</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents . . . . .	1,258	1,006
Equity securities . . . . .	7,074	6,976
Debt securities . . . . .	22,522	19,696
Real estate . . . . .	1,945	1,945
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	9,082	14,013
Insurance policies . . . . .	—	—
Other . . . . .	—	—
<b>Total</b> . . . . .	<b><u>41,881</u></b>	<b><u>43,636</u></b>

For German Group companies, pension obligations developed as follows:

<u>Projected benefit obligations for pension commitments in k €</u>	<u>2018</u>	<u>2017</u>
<b>As of Jan. 1</b> . . . . .	<b>54,277</b>	<b>57,598</b>
Current service cost . . . . .	24	43
Past service cost . . . . .	—	—
Plan settlements . . . . .	—	—
Interest cost . . . . .	1,016	966
Benefits paid from plan assets . . . . .	– 1,216	– 1,210
Benefits paid by employer . . . . .	– 622	– 454
Revaluations:		
• Gains (–) / losses (+) due to changed demographic assumptions . . . . .	124	—
• Gains (–) / losses (+) due to changed financial assumptions . . . . .	– 891	– 2,057
• Gains (–) / losses (+) due to experience-based changes . . . . .	595	– 609
<b>As of Dec. 31</b> . . . . .	<b>53,307</b>	<b>54,277</b>

## Notes to the Consolidated Financial Statements (Continued)

### 36. Other non-current provisions (Continued)

For international Group companies, pension obligations developed as follows:

Projected benefit obligations (DBO) for pension commitments in k €	2018	2017
<b>As of Jan. 1</b> . . . . .	<b>93,014</b>	<b>93,342</b>
Current service cost . . . . .	2,725	2,846
Past service cost . . . . .	– 542	1,719
Plan settlements . . . . .	– 139	– 47
Interest cost . . . . .	1,898	1,911
Benefits paid from plan assets . . . . .	– 5,549	– 1,100
Benefits paid by employer . . . . .	– 925	– 748
Employee contributions . . . . .	523	538
Insurance premiums for death and disability benefits . . . . .	– 226	– 251
Business combinations . . . . .	—	—
Disposals . . . . .	—	– 323
Reclassifications . . . . .	—	513
Revaluations:		
• Gains (–) / losses (+) due to changed demographic assumptions . . . . .	– 400	302
• Gains (–) / losses (+) due to changed financial assumptions . . . . .	– 2,978	– 2,500
• Gains (–) / losses (+) due to experience-based changes . . . . .	– 947	– 340
Currency changes . . . . .	383	– 2,743
Other . . . . .	– 84	– 105
<b>As of Dec. 31</b> . . . . .	<b>86,753</b>	<b>93,014</b>

The past service cost in the reporting year amounts to income of €0.5 million and is largely attributable to special events in the United Kingdom, Switzerland and France. In the United Kingdom, the Supreme Court in 2018 definitively confirmed a ruling that gender inequalities must be eliminated with respect to guaranteed minimum pensions (GMPs) included in occupational pension plans. This resulted in past service cost of €0.3 million. In Switzerland, the underlying group foundation has reduced the conversion amounts from retirement capital to a lifelong annuities; this resulted in a gain of €0.4 million for the STADA Group. In France, a plan curtailment led to an additional gain in the amount of of €0.4 million. In addition, there were other special events with an insignificant impact on the balance sheet.

The fair value of plan assets underlying the pension obligations developed as follows for German group companies:

Fair value of plan assets in k €	2018	2017
<b>As of Jan. 1</b> . . . . .	<b>42,520</b>	<b>44,441</b>
Interest income . . . . .	790	739
Employer contributions . . . . .	142	264
Employee contributions . . . . .	—	—
Pension payments . . . . .	– 1,216	– 1,210
Actuarial gains (+) / losses (–) on plan assets (not included in interest result) . . .	– 658	– 1,714
Other . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b>41,578</b>	<b>42,520</b>

## Notes to the Consolidated Financial Statements (Continued)

### 36. Other non-current provisions (Continued)

The fair value of plan assets underlying the pension obligations developed as follows for international Group companies:

<u>Fair value of plan assets in k €</u>	<u>2018</u>	<u>2017</u>
<b>As of Jan. 1</b> . . . . .	<b><u>76,413</u></b>	<b><u>74,188</u></b>
Interest income . . . . .	1,504	1,417
Employer contributions . . . . .	2,822	2,987
Employee contributions . . . . .	523	538
Pension payments . . . . .	– 5,549	– 1,100
Insurance premiums for death and disability benefits . . . . .	– 226	– 251
Business combinations . . . . .	—	—
Disposals . . . . .	—	—
Reclassifications . . . . .	—	—
Actuarial gains (+) / losses (–) on plan assets (not included in interest result) . . .	– 2,935	646
Currency changes . . . . .	299	– 1,891
Other . . . . .	– 104	– 121
<b>As of Dec. 31</b> . . . . .	<b><u>72,747</u></b>	<b><u>76,413</u></b>

Net debt from defined benefit plans developed for German Group companies as follows:

<u>Net debt from defined benefit plans in k €</u>	<u>2018</u>	<u>2017</u>
<b>As of Jan. 1</b> . . . . .	<b><u>11,757</u></b>	<b><u>13,157</u></b>
Expense from pension plans . . . . .	250	270
Revaluations . . . . .	486	– 952
Employer contributions . . . . .	– 142	– 264
Pension payments by employer . . . . .	– 622	– 454
Currency changes . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b><u>11,729</u></b>	<b><u>11,757</u></b>

Net debt from defined benefit plans developed for international Group companies as follows:

<u>Net debt from defined benefit plans in k €</u>	<u>2018</u>	<u>2017</u>
<b>As of Jan. 1</b> . . . . .	<b><u>16,601</u></b>	<b><u>19,154</u></b>
Expense from pension plans . . . . .	2,455	5,076
Revaluations . . . . .	– 1,387	– 3,232
Employer contributions . . . . .	– 2,822	– 2,987
Pension payments by employer . . . . .	– 925	– 748
Disposals . . . . .	—	– 323
Reclassifications . . . . .	—	513
Currency changes . . . . .	84	– 852
<b>As of Dec. 31</b> . . . . .	<b><u>14,006</u></b>	<b><u>16,601</u></b>



## Notes to the Consolidated Financial Statements (Continued)

### 36. Other non-current provisions (Continued)

The amount of the pension provisions recognized as of the reporting date for companies with plan assets was therefore as follows:

in k €	2018	2017
Projected benefit obligations for pension commitments . . . . .	128,370	135,357
Fair value of plan assets . . . . .	114,325	118,933
<b>Net obligation</b> . . . . .	<b>14,045</b>	<b>16,424</b>
Effect from the limit on a defined benefit asset in accordance with IFRIC 14 . . . . .	—	—
<b>Net liability recognized in the balance sheet</b> . . . . .	<b>14,045</b>	<b>16,424</b>

The amount of the pension provisions recognized as of the reporting date for companies without plan assets was therefore as follows:

in k €	2018	2017
Projected benefit obligations for pension commitments . . . . .	11,690	11,934
<b>Net liability recognized in the balance sheet</b> . . . . .	<b>11,690</b>	<b>11,934</b>

Expenses for defined benefit plans amounted to net expenses in the total amount of €2.7 million in financial year 2018 (previous year: €5.3 million) and consisted of the following components:

in k €	2018	2017
Current service cost . . . . .	2,749	2,889
Past service cost . . . . .	– 542	1,719
Plan settlements . . . . .	– 139	– 47
Net interest expense:		
• Interest expense (DBO) . . . . .	2,914	2,877
• Interest income (plan assets) . . . . .	– 2,294	– 2,156
• Interest income from reimbursement . . . . .	—	—
• Interest expense (+) / interest income (–) from the limit on an asset . . . . .	—	—
Administration costs . . . . .	17	64
Other . . . . .	—	—
<b>Total</b> . . . . .	<b>2,705</b>	<b>5,346</b>

Gains from plan assets amounted to €0.1 million in financial year 2018 (previous year: –€1.0 million) for German Group companies and –€1.4 million for international Group companies (previous year: €2.1 million).

The amount of the income of plan assets for German Group companies is mainly determined by an increase of the plan assets of an approval to the level of the gross obligation as a result of existing reinsurance; this decreased as a consequence of the slight increase in the actuarial interest rate in financial year 2018 and has therefore had a decreasing effect on income. The reduction of the plan assets outside Germany is mainly attributable to a negative performance of the plan assets in the United Kingdom and a decrease in the income of the plan assets in the Netherlands. In the Netherlands, the amount of the plan assets is calculated on the basis of an actuarial measurement and thus depends decisively on the development of the actuarial interest rate. In financial year 2018, the actuarial interest rate increased; this led to a reduction of the obligation as well as assets and consequently of income.

## Notes to the Consolidated Financial Statements (Continued)

### 36. Other non-current provisions (Continued)

The following actuarial parameters were used as a basis for measuring the German pension obligations and pension costs:

Parameters for pension obligations for German Group companies (weighted)	Dec. 31, 2018	Dec. 31, 2017
Discount rate . . . . .	2.0%	1.9%
Salary trend . . . . .	3.0%	3.0%
Benefits trend . . . . .	1.4%	1.4%
Inflation . . . . .	1.8%	1.8%

The following actuarial parameters were used as a basis for measuring the international pension obligations and pension costs:

Parameters for pension obligations for international Group companies (weighted)	Dec. 31, 2018	Dec. 31, 2017
Discount rate . . . . .	2.3%	2.1%
Salary trend . . . . .	2.1%	2.1%
Benefits trend . . . . .	0.8%	0.9%
Inflation . . . . .	1.8%	1.8%

A sensitivity analysis was carried out in which only one assumption was changed in each case and all other assumptions were not changed. In the following, the change in the defined benefit obligation of the pension obligations (DBO) for German Group companies is presented according to a change in the discount rate, salary trends and pension trends:

Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2018 (k €53,307) in accordance with changed assumptions in k €	Dec. 31, 2018	Dec. 31, 2017
Discount rate +0.5% . . . . .	-4,418	-4,681
Discount rate -0.5% . . . . .	5,034	5,376
Salary trend +0.5% . . . . .	4	8
Salary trend -0.5% . . . . .	-5	-6
Pension trend +0.5% . . . . .	5,032	5,294
Pension trend -0.5% . . . . .	-4,410	-4,613

The salary trend is largely insignificant, because all plan participants are close to reaching their regular pension age.

In the following, the change in the defined benefit obligation of the pension obligations (DBO) for international Group companies is presented according to a change in the discount rate, salary trends and pension trends:

Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2018 (k €86,753) in accordance with changed assumptions in k €	Dec. 31, 2018	Dec. 31, 2017
Discount rate +0.5% . . . . .	-6,618	-7,234
Discount rate -0.5% . . . . .	7,566	8,026
Salary trend +0.5% . . . . .	680	731
Salary trend -0.5% . . . . .	-646	-915
Pension trend +0.5% . . . . .	3,574	4,708
Pension trend -0.5% . . . . .	-1,477	-1,804

As of December 31, 2018, the weighted duration of the pension obligations amounted to 18 years (previous year: 18 years) for German Group companies and 17 years (previous year: 17 years) for international Group companies.

## Notes to the Consolidated Financial Statements (Continued)

### 36. Other non-current provisions (Continued)

In the coming financial years, the following payments from the Company and from plan assets overall are expected for defined benefit plans:

Expected pension payments in accordance with maturity dates in k €	Germany	Outside Germany
Less than 1 year . . . . .	2,009	2,807
Between 1 and 2 years . . . . .	1,993	2,355
Between 2 and 3 years . . . . .	2,002	2,481
Between 3 and 4 years . . . . .	1,995	2,727
Between 4 and 5 years . . . . .	2,005	2,669
Between 5 and 10 years . . . . .	9,964	17,017

For the coming financial year, employer contributions, consisting of direct pension payments and contributions to the plan assets, are expected in the amount of €0.8 million for German Group companies and €3.7 million for international Group companies.

The regulations of IAS 19 require a presentation of the benefit plans that generate obligations for the company. For the STADA Group, pension plans in Germany, the Netherlands, the United Kingdom and Switzerland account for the largest share of total obligations with 84%. Accordingly, the following details focus more on these countries.

In Germany, the legal framework for company pension plans is provided by the Company Pensions Act (Betriebsrentengesetz—BetrAVG) in which minimum legal requirements are attached to company pension plans. Regulations and legal precedents within labor law must also be followed. The retirement benefit plans are predominantly based upon the final salary and are concluded with newly hired employees. Plan participants are primarily beneficiaries. Benefits are paid out in the form of a pension. In the calculation of the amount of the pension obligations, the Heubeck 2018G mortality tables were used as a basis for consideration of mortality and fluctuation.

In Germany, STADA has plan assets in the form of reinsurance policies and in the form of assets in a pension fund. As of December 31, 2018, plan assets amounted to €41.6 million and were composed of three different plans. There were no plan assets for two additional plans.

In the context of risk assessment, the life expectancy of plan participants plays a smaller role in Germany, as the material obligation regarding its amount and including associated risks was outsourced externally. Furthermore, there is also the common risk of the interest rate development.

The pension commitment for the former Chairman of the Executive Board Hartmut Retzlaff was transferred to a pension fund in full in financial year 2014. Despite the transfer, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as a defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly in the balance sheet. The existing plan assets lead to a provision of zero due to offsetting that must be carried out at the time of the plan amendment for this benefit plan. Because the pension commitment is fully funded, no further provisions are expected in the future.

Pension legislation in the Netherlands requires pension plans to be backed by assets to such an extent that the vested benefits are completely covered. The underlying average career pension plan in the Netherlands is, in part, financed through insurance contributions that are designed to fulfill the aforementioned requirement. The plan is open for new employees and contains benefits that fall due in case of retirement or early death.

In the Netherlands, the pension plan is, in part, financed via contributions to an insurance company. Assets received by the insurance company thereby cannot be allocated to specific participating companies. The assets cannot be determined by a quoted active market price, instead they are determined according to the amount of vested benefit obligations. As of December 31, 2018, plan assets amounted to €25.6 million.

The Dutch company pays annual pension contributions. In the process, life expectancy risk and interest rate risk are transferred to the insurance company. The insurance company also assumes the risk of investing the contributions. These risks are assumed by the insurance company for the entire term of the

**36. Other non-current provisions (Continued)**

contract. If, for example, the discount rate used by the insurance company in its calculations should change, a new contract could be concluded that applies the new discount rate to underlie only future contributions received.

Not all risks have been transferred to the insurance company. Dutch law specifies that former employees have the right to transfer their pension entitlements to the pension plan of a new employer. If the evaluation assumptions applied in the transfer differ from the originally applied assumptions of the insurance, the company could be required to make an additional contribution payment. In the calculation of the amount of the pension obligations and plan assets, the assumptions of the AG forecast table 2018 were used as a basis for consideration of the mortality. Company-specific age-related annual fluctuation rates serve as a fluctuation assumption.

In the United Kingdom, STADA provides its employees with defined benefit plans that are concluded for new hires. The employees can also no longer earn an additional increase in their entitlements. The pension plan plans are subject to the UK Trust Law and the UK Pension Regulator. The pension plans are monitored by trustees who determine the investment strategy. The trustees are also responsible for fulfilling the legally required pension plan funding and thereby ensuring sufficient assets to cover the technical provisions of the plan. The pension plan is subject to risks relating to the discount rate and participant life expectancy as well as inflation risk, if these values develop contrary to expectations. If the discount rate is low, the level of funding decreases, which may require the payment of additional contributions. There is a financing risk in plan assets in that plan assets could develop contrary to expectations and plan assets could therefore only compensate in part for changes in the obligations.

As of December 31, 2018, plan assets amounted to €21.4 million. All assets have quoted market prices on an active market. In the calculation of the amount of the pension obligations, the mortality tables of the S2 Series (S2PA) were used as a basis for consideration of the mortality also including the projection table CMI 2015 as well as the long-term trend toward improved mortality of 1.25%. Fluctuation assumptions are no longer relevant for the pension plan.

In Switzerland, every employer must offer its employees a pension plan in accordance with federal pension law (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge—BVG). Employees whose salary exceeds the entry limit are obliged to be insured—this is re-determined periodically. The BVG requires a minimum plan (the “BVG minimum”) that must always be covered. STADA's Swiss benefit plan includes benefits in case of death, disability, departure and upon reaching retirement age. The annual pension is calculated based on a savings account and conversion rate determined according to the age of retirement. Plan participants can opt for a capital option. In the calculation of the amount of the pension obligations, the BVG 2015 GT mortality tables were used as a basis for consideration of mortality and fluctuation.

Various Group companies additionally grant their employees defined contribution plans. Here, Group companies pay defined contributions to independent institutions due to legal or contractual requirements or on a voluntary basis; liabilities beyond this do not exist. The contributions for defined contribution plans, which are reported as expense in the respective period in the relevant functional areas, amounted to €26.9 million in financial year 2018 (previous year: €26.8 million).

## Notes to the Consolidated Financial Statements (Continued)

### 36. Other non-current provisions (Continued)

The other non-current provisions developed as follows:

Other non-current provisions in k €	2018	2017
<b>As of Jan. 1</b> . . . . .	<b><u>6,919</u></b>	<b><u>3,668</u></b>
Current service cost . . . . .	519	385
Past service cost . . . . .	86	3,361
Plan settlements . . . . .	—	—
Interest cost . . . . .	211	192
Benefits paid . . . . .	– 630	– 460
Business combinations . . . . .	—	7
Revaluations		
• gains (–) / losses (+) due to changed demographic assumptions . . . . .	10	– 40
• gains (–) / losses (+) due to changed financial assumptions . . . . .	351	– 406
• gains (–) / losses (+) due to experience-based changes . . . . .	275	158
Currency changes . . . . .	– 15	54
Reclassifications . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b><u>7,726</u></b>	<b><u>6,919</u></b>

### 37. Financial liabilities

Financial liabilities are comprised as follows in accordance with their remaining terms as of the reporting date:

Dec. 31 in k €	Liabilities to shareholders		Liabilities from promissory note loans		Liabilities to banks		Liabilities from bonds		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Remaining term up										
to 1 year . . . . .	—	—	129,460	525,112	42,595	84,007	272,887	647,986	444,942	1,257,105
Remaining terms										
over 1 year up to										
3 years . . . . .	—	—	41,436	—	356	816	—	—	41,792	816
Remaining terms										
over 3 years up to										
5 years . . . . .	—	—	6,986	—	—	—	—	—	6,986	—
Remaining terms										
over 5 years . . . . .	929,609	—	—	—	—	—	—	—	929,609	—
<b>Financial liabilities</b> .	<b><u>929,609</u></b>	<b><u>—</u></b>	<b><u>177,882</u></b>	<b><u>525,112</u></b>	<b><u>42,951</u></b>	<b><u>84,823</u></b>	<b><u>272,887</u></b>	<b><u>647,986</u></b>	<b><u>1,423,329</u></b>	<b><u>1,257,921</u></b>

The previous year's values for current and non-current financial liabilities can be attributed to the fact that the financing agreements include a right of return for investors for their respective bonds, promissory note loans or bank loans in case of a change of control or a change of rating at STADA. In view of this, the company had assumed in the previous year that quick repayment would be possible and had reclassified its financial liabilities from non-current to current accordingly. After the exercise option expired and the associated amounts called due were repaid early in the first quarter of 2018, the financial liabilities not optioned were reclassified accordingly from current to current and non-current liabilities and thus the financing agreements that were not retired early were assigned to their original maturities on the balance sheet. STADA Arzneimittel AG and certain material subsidiaries (in accordance with the instructions given by the majority shareholder Nidda Healthcare GmbH) have provided certain collateral to secure capital market liabilities and other financial liabilities assumed by Nidda and its affiliated companies (including STADA) or for which Nidda and its affiliated companies (including STADA) have provided collateral. The provision of these collateral securities results in the holders of the bonds having the right to redeem the nominal amount and accrued interest under STADA bonds. The bond is therefore classified as



## Notes to the Consolidated Financial Statements (Continued)

### 37. Financial liabilities (Continued)

current. In addition, STADA received a loan in the amount of €929.6 million from Nidda Healthcare Holding GmbH intended, among other things, to refinance the repayment of financial liabilities.

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2018, from interest payments and repayment of financial liabilities for the coming years are presented in the following table:

in k €	2019			2020			> 2021		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . . .	12,050	33,939	431,946	555	33,236	12,950	707	123,728	978,109

The following projection of cash flows from financial liabilities was generated in the previous year:

in k €	2018			2019			> 2020		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . . .	13,788	1,092	1,259,973	147	—	260	49	—	448

For the financial liabilities existing as of the reporting date, a repayment in accordance with the maturity disclosed in the balance sheet was generally assumed. The variable interest payments from the promissory note loans were determined based on the interest rate last fixed before December 31, 2018.

For financial liabilities the cash-effective changes of which included in cash flow from financing activities resulted in the reporting year in the following reconciliation:

2018 in k €	Financial liabilities
<b>As of Jan. 1 . . . . .</b>	<b>1,257,921</b>
Cash inflows from additions . . . . .	944,599
Cash outflows from repayments . . . . .	820,883
Changes in the scope of consolidation . . . . .	—
Effects from currency translation . . . . .	– 2,492
Reclassification from other financial liabilities . . . . .	40,000
Other non-cash effective changes . . . . .	4,184
<b>As of Dec. 31 . . . . .</b>	<b>1,423,329</b>

For financial liabilities, the cash changes of which are included in cash flow from financing activities, the following reconciliation was made in the previous year:

2017 in k €	Financial liabilities
<b>As of Jan. 1 . . . . .</b>	<b>1,470,757</b>
Cash inflows from additions . . . . .	32,296
Cash outflows from repayments . . . . .	250,292
Changes in the scope of consolidation . . . . .	1,867
Effects from currency translation . . . . .	1,485
Other non-cash effective changes . . . . .	1,808
<b>As of Dec. 31 . . . . .</b>	<b>1,257,921</b>

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the Notes on the capital management of liquidity risk (see Note 48.5.).

## Notes to the Consolidated Financial Statements (Continued)

### 38. Trade accounts payable

Trade accounts payable are composed as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Trade accounts payable to third parties . . . . .	220,829	198,543
Trade accounts payable to non-consolidated Group companies . . . . .	5,150	3,849
Advances received on orders from third parties . . . . .	—	564
Liabilities from outstanding accounts . . . . .	89,101	137,686
<b>Total . . . . .</b>	<b>315,080</b>	<b>340,642</b>

Of the total amount of trade accounts payable, €0.0 million (previous year: €0.0 million) are due after one year.

For the most part, the changes were based on trade accounts payable on offsetting reporting date effects within the individual Group companies.

### 39. Contractual liabilities

Contractual liabilities in the reporting year amounted to €1.5 million and consisted exclusively of down payments received where it is assumed that performance will be rendered in 2019. No revenues from contractual obligations that were rendered in previous periods were recognized.

### 40. Other financial liabilities

Other financial liabilities are broken down as follows:

in k €	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Loan liabilities . . . . .	—	—	54,821	54,821
Outstanding purchase price liabilities . . . . .	2,020	441	1,880	415
Finance lease liabilities . . . . .	4,012	1,435	3,419	1,337
Liabilities to shareholders from domination and profit and loss transfer agreement . . . . .	134,189	134,189	—	—
Liabilities from derivative financial instruments . . . . .	95	95	1,250	1,250
Other financial liabilities . . . . .	152,570	152,558	168,770	168,285
<b>Total . . . . .</b>	<b>292,886</b>	<b>288,718</b>	<b>230,140</b>	<b>226,108</b>

There were no loan liabilities in financial year 2018 (previous year: € 54.8 million). Loan liabilities as of December 31, 2017 included a loan granted by Nidda Healthcare Holding GmbH in the amount of €40.0 million. All loan liabilities to Nidda Healthcare Holding GmbH were reported under financial liabilities as of December 31, 2018.

As in the previous year, outstanding purchase price liabilities as of December 31, 2018 were based on product acquisitions in the United Kingdom.

Finance lease liabilities for, among other things, vehicles and passenger vehicles, amount to €4.0 million (previous year: €3.4 million). Considering interest in the amount of €0.8 million (previous year: €0.7 million), lease installments payable in subsequent years amount to the total of €4.8 million (previous year: €4.1 million).

## Notes to the Consolidated Financial Statements (Continued)

### 40. Other financial liabilities (Continued)

The leasing liabilities are due as follows:

in k €	Lease installments		Interest		Liabilities financial leasing	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Remaining terms up to 1 year . . . . .	1,750	1,706	315	368	1,435	1,338
Remaining terms over 1 year up to 3 years . . . . .	2,077	2,140	405	318	1,672	1,822
Remaining terms over 3 years up to 5 years . . . . .	983	274	78	15	905	259
Remaining terms over 5 years . . . . .	—	—	—	—	—	—
<b>Total . . . . .</b>	<b><u>4,810</u></b>	<b><u>4,120</u></b>	<b><u>798</u></b>	<b><u>701</u></b>	<b><u>4,012</u></b>	<b><u>3,419</u></b>

For liabilities from finance leases the cash-effective changes of which are included in the cash flow from financing activities resulted in the reporting year in the following reconciliation:

2018 in k €	Finance lease liabilities
<b>As of Jan. 1 . . . . .</b>	<b><u>3,419</u></b>
Payments . . . . .	1,924
Additions . . . . .	1,275
Deconsolidation of BIOCEUTCALS Arzneimittel AG . . . . .	1,212
Effects from currency translation . . . . .	30
Other non-cash effective changes . . . . .	—
<b>As of Dec. 31 . . . . .</b>	<b><u>4,012</u></b>

In the previous year, the following reconciliation was made for liabilities from finance leases, the cash changes of which are included in the cash flow from financing activities:

2017 in k €	Finance lease liabilities
<b>As of Jan. 1 . . . . .</b>	<b><u>3,316</u></b>
Payments . . . . .	2,212
Additions . . . . .	2,293
Effects from currency translation . . . . .	22
Other non-cash effective changes . . . . .	—
<b>As of Dec. 31 . . . . .</b>	<b><u>3,419</u></b>

Liabilities to shareholders from the domination and profit and loss transfer agreement relate exclusively to liabilities from the profit transfer in the amount of €134.2 million in accordance with the current domination and profit and loss transfer agreement with Nidda Healthcare GmbH.

In addition, negative market values of derivatives measured at fair value through profit or loss were reported in liabilities from derivative financial instruments. In financial year 2018, this related to currency

## Notes to the Consolidated Financial Statements (Continued)

### 40. Other financial liabilities (Continued)

forwards (see Note 47.1.). Within the scope of the maturity date analysis, the following contractually agreed remaining terms result for these derivative financial liabilities:

in k €	Derivative financial liabilities	
	Dec. 31, 2018	Dec. 31, 2017
Remaining term up to 1 year . . . . .	95	1,250
Remaining terms over 1 year up to 3 years . . . . .	—	—
Remaining terms over 3 years up to 5 years . . . . .	—	—
Remaining terms over 5 years . . . . .	—	—
<b>Total . . . . .</b>	<b>96</b>	<b>1,250</b>

Remaining financial liabilities primarily included liabilities from discount agreements of German STADA companies in the amount of €128.1 million (previous year: €140.8 million) and also comprise many insignificant individual items in the Group companies. The remaining financial liabilities fall due in the amount of €152.6 million (previous year: €168.3 million) within one year, in the amount of €0.0 million after one year and up to five years (previous year: €0.5 million).

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2018, from interest payments and repayment of finance lease liabilities and for liabilities from derivative financial instruments for the coming years can be seen in the following table:

in k €	2019			2020			2021–2023		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	315	—	1,435	285	—	1,038	198	—	1,539
Cash flows from derivatives	—	—	—	—	—	—	—	—	—

The following projection of cash flows from finance lease liabilities as well as derivatives was generated in the previous year:

in k €	2018			2019			2020–2022		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	368	—	1,338	226	—	1,027	107	—	1,054
Cash flows from derivatives	—	—	—	—	—	—	—	—	—

Included were all financial instruments used by STADA which existed as of the respective reporting date and for which payments had already been contractually agreed.

Further details on liabilities from derivative financial instruments can be found in the Notes on financial instruments Note 47. and Note 48.6.

### 41. Other liabilities

Other liabilities were comprised as follows:

in k €	Dec. 31, 2018		Dec. 31, 2017	
	Total	thereof: current	Total	thereof: current
Tax liabilities . . . . .	8,259	8,259	10,254	10,251
Personnel-related liabilities . . . . .	50,639	50,635	66,373	66,373
Remaining liabilities . . . . .	70,766	68,310	47,846	46,899
<b>Total . . . . .</b>	<b>129,664</b>	<b>127,204</b>	<b>124,473</b>	<b>123,523</b>

## Notes to the Consolidated Financial Statements (Continued)

### 41. Other liabilities (Continued)

The rise in other liabilities was mainly attributable to increases in remaining liabilities, while personnel liabilities and tax liabilities decreased.

Remaining liabilities comprise many insignificant individual items in the Group companies.

### 42. Other provisions

Other provisions are composed as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Provisions for damages . . . . .	5,113	1,393
Provisions for returns . . . . .	17,430	22,114
<b>Total . . . . .</b>	<b><u>22,543</u></b>	<b><u>23,507</u></b>

Provisions for damages include possible utilization from pending legal disputes including the associated legal costs and developed as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
<b>As of Jan. 1 . . . . .</b>	<b><u>1,393</u></b>	<b><u>1,425</u></b>
Added . . . . .	3,868	380
Utilized . . . . .	1	—
Reversed . . . . .	100	420
Change of the scope of consolidation . . . . .	34	—
Currency translation differences . . . . .	– 81	8
<b>As of Dec. 31 . . . . .</b>	<b><u>5,113</u></b>	<b><u>1,393</u></b>

Utilization is expected within the next twelve months. Provisions for returns developed as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
<b>As of Jan. 1 . . . . .</b>	<b><u>22,114</u></b>	<b><u>18,848</u></b>
Added . . . . .	7,827	15,408
Utilized . . . . .	7,452	11,996
Reversed . . . . .	5,059	146
<b>As of Dec. 31 . . . . .</b>	<b><u>17,430</u></b>	<b><u>22,114</u></b>

### Other Disclosures

#### 43. Notes to the cash flow statement

Cash flow from operating activities consists of changes in items not covered by capital expenditure, financing, changes in exchange rates from the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities amounted to €320.3 million in the reporting year (previous year: €262.9 million). This development was mainly due to a significant increase in gross cash flow as a result of a strong annual result and lower income tax payments. In addition, there were significantly lower cash outflows in connection with inventories and slight cash inflows in connection with trade accounts receivables compared with significant cash outflows in the previous year. Additionally, significantly lower consumption from the deferrals for healthcare insurance settlements was recorded. This was offset by significantly higher cash outflows from the settlement of trade accounts payable, which were high at the end of the previous year.

Cash flow from investing activities reflects the cash outflows for investments reduced by the inflows from disposals. This amounted to –€300.3 million in the reporting year (previous year: –€122.6 million).



## Notes to the Consolidated Financial Statements (Continued)

### 43. Notes to the cash flow statement (Continued)

In financial year 2018, payments for investments in intangible assets in the amount of €280.3 million (previous year: €70.2 million) were made, of which €255.4 million (previous year: €39.5 million) related to significant investments in intangible assets for the short-term expansion of the product portfolio. Proceeds from the disposal of non-current assets amounted to €9.2 million (previous year: €5.7 million).

Cash flow from investing activities was particularly influenced by payments for investments in intangible assets in financial year 2018, primarily relating to the acquisition of the rights to the medical dandruff shampoo Nizoral® for the EMEA region and the reacquisition of the rights to the sunscreen Ladival®. In the context of business combinations, there were net inflows from the acquisition of the majority interest in BIOCEUTICALS Arzneimittel AG, as the company's cash and cash equivalents acquired at the time of acquisition exceeded the purchase price.

Proceeds from the disposal of shares in consolidated companies related to dividends of STADA Vietnam J.V., which was accounted for using the equity method, which represent partial payments in connection with the agreement concluded in the fourth quarter of 2017 to sell the shares in this company held by STADA as of December 31, 2019.

Cash flow from financing activities amounted to €79.7 million in financial year 2018 (previous year: –€227.8 million) and encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity. This development was primarily attributable to significant increase in financial liabilities due to the loans granted to STADA by Nidda Healthcare Holding GmbH. This was offset by higher repayments of financial liabilities. This resulted in particular from the following material effects: Due to the takeover in 2017, the creditors of STADA Arznei-mittel AG were entitled in accordance with the financing conditions to prematurely terminate bonds, promissory note loans and bank loans. Among other things, a partial amount of €360.2 million made due prematurely in the first quarter of 2018 in this context. In the second quarter of 2018, the scheduled repayment of a bond in the amount of €347.1 million was another material effect.

Dividend distribution payments of €6.8 million primarily related to the dividend paid to the shareholders of STADA Arznei-mittel AG for financial year 2017.

Given the high level of expenditures for investments, free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to €20.0 million in financial year 2018 (previous year: €140.2 million).

Cash pursuant to IAS 7 is made up of cash and cash equivalents.

Free cash flow, adjusted for effects from payments for significant investments and acquisitions and effects of proceeds from significant disposals is calculated as follows:

<b>k in €</b>	<b>2018</b>	<b>2017</b>
Cash flow from operating activities . . . . .	<b>320,288</b>	262,881
Cash flow from investing activities . . . . .	– 300,284	– 122,644
+ payments for investments in business combinations in accordance with IFRS 3 . . . . .	– 19,185	2,854
+ payments for significant investments in intangible assets for the short-term expansion of the product portfolio . . . . .	255,384	39,484
– proceeds from disposals in significant disinvestments . . . . .	375	1,390
– proceeds from disposals in consolidated companies . . . . .	6,225	6
<b>Adjusted free cash flow . . . . .</b>	<b>249,603</b>	<b>181,179</b>

## Notes to the Consolidated Financial Statements (Continued)

### 44. Segment reporting

The measurement approaches for segment reporting are in accordance with the financial reporting methods used in the IFRS Consolidated Financial Statements. Services between the segments are charged based on market prices.

Segmentation within the STADA Group is based on sales differentiation. Thus, the allocation to the individual segments is determined to a large extent by the sales positioning. If this positioning changes for parts of the product portfolio, associated sales are reallocated.

In accordance with the reporting structure the Group is managed by operating segment, i.e. in accordance with the two segments Generics and Branded Products.

Generics are products for the health care market—usually with a drug character—which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active pharmaceutical ingredient

or

- the product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have expired,

or

- the product is sold under its international non-proprietary name (INN).

Branded products are products for the health care market which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products,

or

- the product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on different specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

All other income, expenses and assets, which cannot be directly allocated to the segments, as well as the elimination of sales between segments are recognized under the reconciliation Group holdings/other and consolidation.

Disclosures on significant non-cash items include impairments on inventories and receivables; they do not, however, include depreciation and amortization as well as the offsetting of impairments and write-ups. In addition, further non-cash items, particularly non-cash effects from accruals for health insurance organization billings are included here. Reporting of the segment liabilities and non-current segment assets is waived, as this is without relevance for Group monitoring and for Group reporting.

## Notes to the Consolidated Financial Statements (Continued)

### 44. Segment reporting (Continued)

#### 44.1. Information by operating segment

in k €		2018	2017
<b>Generics</b> . . . . .	<b>External sales</b>	<b>1,382,833</b>	<b>1,361,681</b>
	Sales with other segments	301	2,001
	Total sales	1,383,134	1,363,681
	Operating profit	291,859	233,237
	Depreciation/amortization	51,059	53,475
	Impairment losses	17,466	14,325
	Reversals	– 1,265	8,513
	EBITDA	359,213	292,549
	Special items within EBITDA thereof	436	10,270
	• effects from purchase price allocations and product acquisitions	436	– 2,418
	• severance payments	—	8,257
	• consulting services	—	—
	• other	—	4,431
	<i>EBITDA adjusted</i>	<i>359,649</i>	<i>302,819</i>
	Other significant non-cash items within operating result	– 160,423	– 196,002
<b>Branded Products</b> . . . . .	<b>External sales</b>	<b>947,991</b>	<b>952,247</b>
	Sales with other segments	—	—
	Total sales	947,991	952,247
	Operating profit	165,039	99,322
	Depreciation/amortization	67,252	65,414
	Impairment losses	24,700	45,624
	Reversals	– 14,634	5,482
	EBITDA	242,469	204,878
	Special items within EBITDA thereof	– 1,897	2,570
	• effects from purchase price allocations and product acquisitions	– 1,897	– 1,815
	• severance payments	—	2,789
	• consulting services	—	—
	• other	—	1,596
	<i>EBITDA adjusted</i>	<i>240,572</i>	<i>207,448</i>
	Other significant non-cash items within operating result	– 25,553	– 41,999

## Notes to the Consolidated Financial Statements (Continued)

### 44. Segment reporting (Continued)

in k €		2018	2017
<b>Reconciliation Group holdings/other and consolidation</b>	<b>External sales</b>	—	—
	Sales with other segments	– 301	– 2,001
	Total sales	– 301	– 2,001
	Operating profit	– 78,848	– 140,270
	Depreciation/amortization	4,221	3,976
	Impairment losses	—	407
	Reversals	—	—
	EBITDA	– 71,068	– 133,609
	Special items within EBITDA thereof	– 25,672	57,205
	• effects from purchase price allocations and product acquisitions	—	—
	• severance payments	2,595	9,193
	• consulting services	—	44,987
	• other	– 28,267	3,025
	EBITDA adjusted	– 96,740	– 76,404
	Other significant non-cash items within operating result	18,186	– 43,057
<b>Group</b>	<b>External sales</b>	<b>2,330,824</b>	<b>2,313,928</b>
	Sales with other segments	—	—
	Total sales	2,330,824	2,313,928
	Operating profit	378,050	192,289
	Depreciation/amortization	122,532	122,865
	Impairment losses	42,166	60,356
	Reversals	– 15,899	13,995
	EBITDA	530,614	363,818
	Special items within EBITDA thereof	– 27,133	70,045
	• effects from purchase price allocations and product acquisitions	– 1,461	– 4,233
	• severance payments	2,595	20,239
	• consulting services	—	44,987
	• other	– 28,267	9,052
	EBITDA adjusted	503,481	433,863
	Other significant non-cash items within operating result	– 167,790	– 281,058

### 44.2. Reconciliation of segment results to net profit

in k €	2018	2017
Adjusted EBITDA for segments	600,221	510,267
Special items within EBITDA	– 1,461	12,840
Reconciliation Group holding/other and consolidation	– 71,068	– 133,609
Depreciation, amortization, impairments losses and reversals	148,799	169,226
Financial income	5,624	3,629
Financial expenses	44,565	50,475
<b>Earnings before taxes, Group</b>	<b>342,874</b>	<b>147,746</b>

## Notes to the Consolidated Financial Statements (Continued)

### 44. Segment reporting (Continued)

#### 44.3. Information by country

in k €	Sales development by location of the company		Non-current assets	
	2018	2017	Dec. 31, 2018	Dec. 31, 2017
Germany . . . . .	551,287	518,666	863,574	558,151
Russian Federation . . . . .	331,446	364,505	181,273	211,648
United Kingdom . . . . .	260,243	250,201	380,020	405,976
Italy . . . . .	223,439	213,268	41,488	31,986
Serbia . . . . .	147,951	138,185	289,317	292,096
Other countries . . . . .	816,458	829,103	303,000	307,223
<b>Total, Group . . . . .</b>	<b><u>2,330,824</u></b>	<b><u>2,313,928</u></b>	<b><u>2,058,672</u></b>	<b><u>1,807,080</u></b>

In the presentation of sales by location of the company, sales to third parties are shown in accordance with the invoicing company's registered office of the countries listed.

Disclosures on assets by country relate to parts of the non-current assets (intangible assets, property, plant and equipment).

#### 44.4. Information on important customers

In accordance with IFRS 8.34, a company must provide notification when sales revenues from business activities with a single external customer or customer group amount to at least 10% of the company's total sales revenues. This applied to one customer in the reporting year. The sales revenues identified with this customer amounted to €325.0 million (previous year: €313.3 million). The sales revenues generated were attributable to the Generics segment and the Branded Products segment. The same information also applied to the previous year.

### 45. Contingent liabilities

Contingent liabilities describe possible obligations to third parties based on past events but which will not become manifest until the occurrence of one or more uncertain future events, which are not under STADA's control. As of the reporting date, these contingent liabilities were considered improbable and are therefore not accounted. In addition, there are also contingent liabilities for current obligations, for which however the associated outflow of resources is not considered probable or the amount of the obligation cannot be adequately estimated.

STADA has contingent liabilities in connection, among other things, with patent risks for certain active pharmaceutical ingredients and associated pending or impending proceedings. The resulting possible obligations amounted to approximately €31.0 million (previous year: €11.6 million). Development as compared to the previous year are based primarily on a changed estimate with regard to the volume of impending resource outflows for patent risks in the amount of €21.7 million. Additionally, potential obligations as a result of a ban on economic activities between Russia and Ukraine ceased to exist.

Provisions were not created for contingent liabilities as the probability of an outflow of assets is below 50%. Outflows potentially resulting from these risks would generally be short-term.

### 46. Other financial obligations

In addition to the contingent liabilities, there are also other future financial obligations which can be broken down as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Operating lease liabilities . . . . .	48,743	54,861
Other financial obligations . . . . .	84,408	135,541
<b>Total . . . . .</b>	<b><u>133,151</u></b>	<b><u>190,402</u></b>



## Notes to the Consolidated Financial Statements (Continued)

### 46. Other financial obligations (Continued)

Liabilities from operating leases relate, among other things, to IT equipment and vehicles. In addition, there are liabilities from long-term rental agreements for office buildings with an average contract term of 5 years.

The total of future minimum lease payments under operating leases amounted to €48.7 million as of the end of the financial year (previous year: €54.9 million) and can be broken down according to remaining term as follows:

in k €	Operating leases	
	Dec. 31, 2018	Dec. 31, 2017
Remaining terms up to 1 year . . . . .	18,161	21,314
Remaining terms over 1 year to 5 years . . . . .	27,649	31,391
Remaining terms over 5 years . . . . .	2,933	2,156
<b>Total . . . . .</b>	<b>48,743</b>	<b>54,861</b>

In financial year 2018, lease payments in the amount of €34.6 million (previous year: €32.2 million) were recognized as an expense.

Other financial obligations include long-term obligations for logistics services. Furthermore, contingent liabilities in the amount of €28.3 million in Spain, Belgium and the United Kingdom, as well as additional guarantees assumed by the STADA Group are included in other financial liabilities, among other things.

Due to the change in status of BIOCEUTICALS Arzneimittel AG from a company accounted for using the equity method to a fully consolidated subsidiary as of September 30, 2018, the guarantee of €25.0 million to Hospira Inc., Lake Forest, Illinois, USA, which exists in connection with a supply contract between Hospira and BIOCEUTICALS Arzneimittel AG, is no longer included in other financial obligations as of December 31, 2018 (previous year: €25.0 million).

### 47. Disclosures about financial instruments

#### 47.1. Carrying amounts, valuation rates and fair values in accordance with valuation categories

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are used for the valuation categories pursuant to IFRS 9: AC (at amortized cost) refers to loans and receivables, FVPL (fair value through profit and loss) refers to financial assets and liabilities held for sale, FVOCI (fair value through other comprehensive income) refers

## Notes to the Consolidated Financial Statements (Continued)

### 47. Disclosures about financial instruments (Continued)

to assets and liabilities measured at fair value through other comprehensive income, AC (financial liabilities measured at amortized cost) refers to financial liabilities measured at amortized cost.

in k €	Category	Carrying amount Dec. 31, 2018	Amortized cost	Fair value not included in the income statement	2018 Fair value included in the income statement	Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2018
<b>Assets</b>							
Cash .....	AC	343,794	343,794	—	—	—	343,794
Trade accounts receivable:							
at amortized cost .....	AC	503,902	503,902	—	—	—	503,902
at fair value through other comprehensive income .....	FVOCI	12,109	—	12,109	—	—	12,109
Other financial assets:							
at amortized cost .....	AC	11,341	11,341	—	—	—	11,341
Derivative financial assets .....		—	—	—	—	—	—
Derivative financial assets with hedge accounting .....	n/a	1,850	—	—	1,850	—	1,850
Derivative financial assets without hedge accounting .....	FVPL	387	—	—	387	—	387
<b>Equity and liabilities</b>							
Trade accounts payable .....	AC	315,080	315,080	—	—	—	315,080
Amounts due to banks .....	AC	42,951	42,951	—	—	—	42,951
Promissory note loans .....	AC	177,882	177,882	—	—	—	179,060
Bonds .....	AC	272,887	272,887	—	—	—	273,941
Financial liabilities due to shareholders .....	AC	929,609	929,609	—	—	—	929,609
Other financial liabilities .....	AC	288,779	288,779	—	—	—	288,779
Liabilities financial leasing .....	n/a	4,012	—	—	—	4,012	4,012
Derivative financial liabilities with hedge accounting .....	n/a	80	—	—	80	—	80
Derivative financial liabilities without hedge accounting .....	FVPL	15	—	—	15	—	15
<b>Thereof aggregated</b>							
Financial assets at amortized cost .	AC	859,037	859,037	—	—	—	859,037
Financial assets FVOCI .....	FVOCI	12,109	—	12,109	—	—	12,109
Financial liabilities measured at amortized cost .....	AC	2,027,188	2,027,188	—	—	—	2,029,421

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are used for the valuation categories pursuant to IAS 39: LaR refers to loans and receivables, HtM refers to held-to-maturity investments, AfS refers to

## Notes to the Consolidated Financial Statements (Continued)

### 47. Disclosures about financial instruments (Continued)

available-for-sale financial assets, FAHfT refers to financial assets held for trading, FLHfT refers to financial liabilities held for trading and FLAC refers to financial liabilities measured at amortized cost.

in k €	Carrying amount Dec. 31, 2017	Valuation category pursuant to IAS 39	Valuation rate balance sheet in accordance with IAS 39			Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2017
			Amortized cost	Fair value not included in the income statement	Fair value included in the income statement		
<b>Assets</b>							
Cash and cash equivalents . . . . .	243,195	LaR	243,195	—	—	—	243,195
Trade accounts receivable . . . . .	520,441	LaR	520,441	—	—	—	520,441
Available-for-sale financial assets . . . . .	1,978	AfS	1,978	—	—	—	1,978
Derivative financial assets with hedging relationship . . . . .	678	n/a	—	—	678	—	678
Derivative financial assets without hedging relationship . . . . .	—	FAHfT	—	—	—	—	—
Other financial assets . . . . .	10,217	LaR	10,217	—	—	—	10,217
<b>Equity and liabilities</b>							
Trade payables . . . . .	340,642	FLAC	340,462	—	—	—	340,462
Amounts due to banks . . . . .	84,823	FLAC	84,823	—	—	—	84,772
Promissory note loans . . . . .	525,112	FLAC	525,112	—	—	—	526,000
Bonds . . . . .	647,986	FLAC	647,986	—	—	—	655,656
Liabilities financial leasing . . . . .	3,419	n/a	—	—	—	3,419	3,419
Derivative financial liabilities with hedging relationship . . . . .	1,244	n/a	—	—	1,244	—	1,244
Derivative financial liabilities without hedging relationship . . . . .	6	FLHfT	—	—	6	—	6
Other financial liabilities . . . . .	225,471	FLAC	225,471	—	—	—	225,471
<b>Thereof aggregated according to valuation categories in accordance with IAS 39</b>							
Loans and receivables . . . . .	773,853	LaR	773,853	—	—	—	773,853
Available-for-sale financial assets . . . . .	1,978	AfS	1,978	—	—	—	1,978
Financial assets held for trading	—	FAHfT	—	—	—	—	—
Financial liabilities measured at amortized cost . . . . .	1,824,034	FLAC	1,824,034	—	—	—	1,832,541
Financial liabilities held for trading . . . . .	6	FLHfT	—	—	6	—	6

Since cash and cash equivalents as well as trade accounts receivable mainly have short residual terms, their carrying amounts as of the closing date correspond approximately to their fair value.

Deviations of the fair values from the carrying amounts occur as shown in the chart above in the case of promissory note loans, bonds, as well as liabilities to banks. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values for liabilities to credit institutes.

The fair values of remaining financial receivables as well as of held-to-maturity financial investments with residual terms of more than a year correspond to the present values of the payments connected with the assets taking into consideration the respective current interest parameters that reflect market and partner-related changes in the conditions and expectations. Trade accounts payable as well as remaining financial

## Notes to the Consolidated Financial Statements (Continued)

### 47. Disclosures about financial instruments (Continued)

liabilities also regularly have short remaining terms so that the recognized values approximate the fair values.

The chart below shows how the valuation rates of financial instruments measured at fair value were determined for the respective valuation categories of financial instruments:

Fair values by levels of hierarchy in k € on a recurring basis	Level 1		Level 2		Level 3	
	Quoted prices in active markets		Valuation methods with input parameters observable in the market		Valuation methods with input parameters not observable in the market	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Financial assets (FVOCI)						
• receivables that can be factored . . . . .	—	—	12,109	n/a	—	—
Financial assets held for trading (FVPL)						
• currency forwards . . . . .	—	—	387	—	—	—
Derivative financial assets with hedging relationship						
• fair value hedges . . . . .	—	—	1,850	678	—	—
Financial liabilities held for trading (FVPL)						
• currency forwards . . . . .	—	—	15	6	—	—
Derivative financial liabilities with hedging relationship						
• fair value hedges . . . . .	—	—	80	1,244	—	—

In the context of the preparation of the financial statements, STADA reviews the allocation to the respective hierarchy levels according to information available on the determination of the fair values. If a need for reclassification is determined, the re-classification is carried out as of the beginning of the reporting period. In the financial year, there were no reclassifications between the respective hierarchy levels.

The fair values are analyzed in the context of the preparation of the financial statements. For this purpose, market comparisons and change analyses are carried out.

Derivative financial assets (FVPL) and derivative financial liabilities (FVPL) include positive or negative market values of derivative financial instruments (currency forwards, in the previous year interest rate swaps) not part of a hedging relationship. The fair values of currency forwards are determined using financial mathematics based on current market data provided by a reputable information service, such as spot exchange rates or swap rates, in one system according to standardized procedures. In the previous year, the fair values were determined using appropriate valuation models by external third parties.

STADA designates currency forwards (EUR/RUB, EUR/DKK, EUR/CHF, EUR/USD and EUR/GBP) as fair value hedges that are concluded to hedge the currency risks from inter-company loans. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value spot components of the currency forwards of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective.

## Notes to the Consolidated Financial Statements (Continued)

### 47. Disclosures about financial instruments (Continued)

In financial year 2018, there financial assets or liabilities measured at fair value allocated to hierarchy level 3. Financial assets and liabilities allocated to level 3 and measured at fair value developed as follows in the previous year:

in € k	Financial assets measured at fair value	Financial liabilities measured at fair value
<b>Balance as of Jan. 1, 2017</b> . . . . .	<b>9,910</b>	<b>–3,362</b>
Reclassification from level 2 . . . . .	—	—
Currency changes . . . . .	—	—
Comprehensive income . . . . .	–268	2,511
• through profit or loss . . . . .	–268	2,511
• with no effect on profit or loss . . . . .	—	—
Additions . . . . .	—	—
Implementations . . . . .	–9,642	851
Reclassification in level 2 . . . . .	—	—
<b>As of Dec. 31, 2017</b> . . . . .	<b>—</b>	<b>—</b>
<b>Results recognized through profit or loss</b> . . . . .	<b>–268</b>	<b>2,511</b>
Other earnings/other expenses . . . . .	–151	2,226
thereof		
• attributable to assets/liabilities held as of the reporting date . . . .		—
Financial result . . . . .	–117	285
thereof		
• attributable to assets/liabilities held as of the reporting date . . . .	—	—

#### 47.2. Net earnings from financial instruments by valuation category

Net earnings recognized through profit or loss from financial liabilities can be broken down as follows:

Net earnings by valuation category in k €	From interest and dividends	From subsequent measurement			From disposals	Net earnings	
		At fair value	Currency translation	Value adjustment		Dec. 31, 2018	Dec. 31, 2017
Financial assets at amortized cost . . . . .	2,079	—	–11,098	–4,917	—	–13,936	–42,874
Financial assets FVOCI . . . . .	–1,564	—	—	—	—	–1,564	–408
Financial assets held for trading							
FVPL . . . . .	–576	1,070	—	—	678	1,172	8,950
Financial liabilities measured at							
amortized cost . . . . .	–36,158	—	1,210	—	—	–34,948	–44,165
Financial liabilities held for							
trading (FLHfT) . . . . .	–13	–5,995	—	—	–5,999	–12,007	–7,489
<b>Total</b> . . . . .	<b>–36,232</b>	<b>–4,925</b>	<b>–9,888</b>	<b>–4,917</b>	<b>–5,321</b>	<b>–61,283</b>	<b>–85,986</b>

The disclosure of interest from financial instruments is made in financial income and financial expenses in the interest result. Dividends received are disclosed in investment income. With the exception of the valuation results from currency swaps recognized at fair value through profit or loss, which are reported under financial income or financial expenses and partially also in the currency translation result, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate to the fulfillment of currency swaps.



## Notes to the Consolidated Financial Statements (Continued)

### 47. Disclosures about financial instruments (Continued)

#### Total interest income and expenses from financial instruments not measured at fair value through profit or loss

in k €	2018	2017
<b>Interest income</b>		
• from financial assets measured at amortized cost . . . . .	2,079	n/a
<b>Interest expenses</b>		
• from financial liabilities measured at amortized cost . . . . .	36,158	n/a

### 47.3. Factoring

#### Factoring transactions with the transfer of essentially all opportunities and risks

There are two revolving receivable selling agreements with banks and financial institutes (together “receivables buyers”) with the transfer of essentially all opportunities and risks for two agreements without a general purchase limit and for one agreement with a purchase limit of €17.5 million. The agreements have an unlimited term with regular termination possibilities, whereby STADA is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). In return for a fixed program fee recognized in expenses at the time of derecognition, both risks are fully transferred to the buyer of the receivable. The nominal volume of receivables sold by STADA but not yet paid under the factoring agreements amounted to €38.0 million on the reporting date.

#### Factoring transactions with distribution of essential opportunities and risks for which control of the asset remains with STADA

There are factoring agreements pursuant to which STADA, on a revolving basis, sells trade accounts receivables up to a total general purchase limit of €135.6 million to banks and financial institutes. The agreements have an unlimited term with regular termination possibilities, whereby STADA is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). The credit risk is partially transferred to the buyer of the receivable. The late payment risk continues to be borne in its entirety by STADA. The maximum credit risk to be borne by STADA, translated into euro, amounted to €1.3 million as of the reporting date. The other credit-risk related defaults are assumed by the buyer. The late payment risk continues to be borne in its entirety by STADA. The maximum risk of loss for STADA resulting from the credit risk and the late payment risk from the receivables sold as of the reporting date, translated into euro, amounted to €1.4 million. The nominal volume of receivables sold by STADA but not yet paid under the factoring agreements, translated into euro, amounted to €51.7 million on the reporting date. The ongoing commitment of STADA as of December 31, 2018, translated into euro, amounted to €1.4 million and the carrying amounts of the associated liability, translated into euro, amounted to €1.4 million.

### 48. Risk management, derivative financial instruments and disclosures on capital management

#### 48.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board in the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Executive Board must first be approved by the Executive Board. The Executive Board is also regularly informed of the nature, scope and amount of current risks.

#### 48.2. Currency risks

STADA's Group and balance sheet currency is the euro. Due to the international alignment of business activities, STADA is subject to risks arising from exchange rate fluctuations.

## Notes to the Consolidated Financial Statements (Continued)

### 48. Risk management, derivative financial instruments and disclosures on capital management (Continued)

On the one hand, these risks consist of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency as a result of exchange rate fluctuation (transaction risk).

However, STADA is only subject to this risk to a limited extent, as the company counters currency-related risks through, in addition to natural hedges, the use of derivative financial instruments. These are used to hedge currency risks from operating activities, financial transactions and investments. In the reporting year, STADA made use of foreign-exchange futures contracts and currency swaps. The maturity dates of futures contracts is adjusted to the term of the underlying transaction. The residual term of the contracts is currently up to one year.

In the context of the Consolidated Financial Statements, on the other hand, exchange rate fluctuations lead to an accounting effect as a result of the conversion of the balance sheet items as well as the conversion of earnings and expenses of international Group companies with a different functional currency than euro (translation risk). The appreciation of the euro as compared to the other currencies is generally negative and depreciation is generally positive.

STADA determines quantitative disclosures on risks in connection with currency changes by means of aggregating all of the Group companies' foreign currency items that are not denominated in the respective Group company's functional currency. In case of hedging transactions they are compared with the balances of assets or equity and liabilities from the aggregation. This results in the subsequent material outstanding foreign currency items as of the respective reporting dates, which in case of a change to the foreign currency item due to a 10% appreciation or a 10% devaluation of the euro in comparison with respective functional currency are as follows:

in k €	Dec. 31, 2018			Dec. 31, 2017		
	Serbian dinar	US dollar	Ukrainian hryvnia	Kazakhstani tenge	US dollar	Ukrainian hryvnia
Outstanding foreign currency item . . . . .	+24,575	+15,756	- 23,193	+13,574	- 31,264	+9,901
Income (+) / expense (-) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	+2,458	- 1,576	- 2,319	- 1,661	+3,126	- 2,444
Income (+) / expense (-) from a depreciation of the euro in comparison to the respective functional currency by 10% . . . . .	- 2,458	+1,576	+2,319	+1,661	- 3,126	+2,444
Equity increase (+) / equity reduction (-) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	- 15,325	- 1,576	- 1,862	- 2,178	+3,126	- 1,968
Equity increase (+) / equity reduction (-) from a depreciation of the euro in comparison to the respective functional currency by 10% . . . . .	+15,325	+1,576	+1,862	+2,178	- 3,126	+1,968

In this regard, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency items in Kazakhstani tenge and Ukrainian hryvnia relate to a balance from international Group companies in euro and outstanding foreign currency reserves in Kazakhstani tenge and Ukrainian hryvnia. The reported outstanding foreign currency positions in the US dollar relate exclusively to foreign currency holdings in US dollars at German and international Group companies. The risk in connection with the outstanding foreign currency reserves in euro, from the Group's perspective, results from the functional currency of the respective international Group company. Overall, based on outstanding foreign currency items as of the reporting date, an appreciation or a devaluation of the respective functional currency by 10% compared to the currencies of relevance for the Group would have

## Notes to the Consolidated Financial Statements (Continued)

### 48. Risk management, derivative financial instruments and disclosures on capital management (Continued)

led to an effect on earnings in the amount of an expense of €3.9 million (previous year: €2.2 million) or in the amount of earnings of €3.9 million (previous year: €2.2 million).

#### 48.3. Interest rate risks

STADA is subject to interest risks from the investment of financial assets as well as financial debts, primarily in the Euro zone.

In 2018, an average of 33% (previous year: 88%) of financial liabilities in euro had fixed interest rates.

In 2018, STADA did not enter into any interest rate hedging transactions.

STADA calculates existing interest rate risks using sensitivity analyses, which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as equity. The following factors—if relevant—are generally included in the calculation:

- Changes in the market interest rate of original financial liabilities with variable interest rates that were not hedged against interest rate risks

in € million	Dec. 31, 2018	Dec. 31, 2017
Income (+) / expense (–) from an increase in the market interest rate level of 100 basis points	– 4.5	– 1.2
Income (+) / expense (–) from a decrease in the market interest rate level of 100 basis points	0.4	+0.6
Equity increase (+) / equity reduction (–) from an increase in the market interest rate level of 100 basis points	—	—
Equity increase (+) / equity reduction (–) from a decrease in the market interest rate level of 100 basis points	—	—

The interest-rate risk at STADA is of secondary importance.

#### 48.4. Default risks

STADA is exposed to a default risk in its operating business if contracting parties fail to meet their obligations. Alongside the implementation of appropriate credit management processes, such transactions are generally only concluded with counterparties of impeccable financial standing to avoid default risks in financing activities.

Default risks also exist as a result of the supply of goods and services. STADA therefore strives to maintain business relations only with partners of impeccable financial standing. In addition, STADA partly uses suitable measures such as guarantees, loan insurances or the transfer of assets to safeguard itself against default risk. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments. Furthermore, there is the risk that in a difficult economic and financial environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

STADA's maximum credit default risk is calculated from the carrying amount of the financial assets recognized. In addition, STADA granted guarantees, which amounted to a total nominal volume of €29.0 million (previous year: €63.1 million) as of the reporting date (see Note 46.). STADA has various forms of collateral for credit securities such as mortgages, bank or corporate guarantees, assignments of receivables and pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

#### 48.5. Liquidity risks

Liquidity risks may result, for example, from the loss of existing cash items, lack of availability of credit, reduced access to financing markets or fluctuation in the operational development of business. The goal of

## Notes to the Consolidated Financial Statements (Continued)

### 48. Risk management, derivative financial instruments and disclosures on capital management (Continued)

liquidity management is to ensure solvency and financial flexibility of the STADA Group at all times by maintaining a sufficient supply of liquidity reserves. STADA finances itself with short-term and long-term borrowings from banks, promissory note loans, bonds and factoring. Furthermore, STADA also has solid cash flow from operating activities.

#### 48.6. Derivative financial instruments and hedging instruments

STADA counters currency risks with derivative financial instruments which are exclusively used to hedge currency risks resulting from operating activities and financial transactions. Derivative financial instruments are neither held nor issued for speculation purposes.

The total volume of currency rate related derivatives is comprised as follows:

in k €	Dec. 31, 2018		Dec. 31, 2017	
	Nominal value	Fair Value	Nominal value	Fair Value
<b>Derivatives without hedging relationship</b>				
Currency swaps . . . . .	10,556	372	771	– 6
<b>Derivatives with hedging relationship</b>				
Currency swap . . . . .	68,422	1,770	161,448	– 566
<b>Total . . . . .</b>	<b>78,978</b>	<b>2,142</b>	<b>162,219</b>	<b>– 572</b>

STADA designates currency forwards (EUR/RUB, EUR/DKK, EUR/CHF, EUR/USD and EUR/GBP) as fair value hedges that are concluded to hedge the currency risks from inter-company loans. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value of the spot component of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective. In the reporting period, new fair value hedges with a nominal volume totaling €681.5 million were designated for reduction of the fair value risk (previous year period: €161.5 million). At STADA, as of December 31, 2018, there were currency derivatives with a net fair value of k €1,770 (December 31, 2017: k € – 566) which were designated as hedging instruments within the scope of fair value hedges. Losses recognized in currency translation result of k €4,088 (previous year: k €863) resulted in financial year 2018 from the carrying amount adjustment of the underlying transaction, from the changes in fair values of the spot components of the hedging transactions, profits of k €4,088 (previous year: k €863) were recognized in currency translation result.

in k €	Remaining term up to 1 year	Sum of nominal amounts Dec. 31, 2018	Sum of nominal amounts Dec. 31, 2017	Average hedging rate/price
<b>Hedging of currency risk</b>				
• Currency forwards RUB . . . . .	10,556	10,556	771	77.7599
• Currency swaps RUB . . . . .	49,068	49,068	109,029	77.4443
• Currency swaps CHF . . . . .	11,496	11,496	15,461	1.1308
• Currency swaps GBP . . . . .	3,968	3,968	1,128	0.9072
• Currency swaps USD . . . . .	0	0	33,143	—
• Currency swaps AUD . . . . .	1,206	1,206	0	1.6586
• Currency swaps DKK . . . . .	2,684	2,684	2,688	7.4514

## Notes to the Consolidated Financial Statements (Continued)

### 48. Risk management, derivative financial instruments and disclosures on capital management (Continued)

in k €	Carrying amount Dec. 31, 2018	Balance sheet item Dec. 31, 2018	Fair value adjustments for measurement of inefficiencies Dec. 31, 2018	Nominal volumes Dec. 31, 2018
<b>Hedging of currency risk</b>				
• Currency forwards				
—derivative assets . . . . .	1,850	other financial assets		15,465
—derivative liabilities . . . . .	– 80	other financial liabilities		52,957

#### 48.7. Disclosures on capital management

The objectives of the STADA capital management are the safeguarding of the business operation, the creation of a solid equity base for financing profitable growth as well as guaranteeing attractive dividend payments and the capital service. The STADA capital management consistently aims for the Group companies to have an equity basis that corresponds to the local requirements. When implementing and checking the Group's capital and liquidity the legal requirements are taken into account.

An important key figure for capital management at STADA is the net debt to adjusted EBITDA ratio, which amounted to 2.1 in financial year 2018 (previous year: 2.4).

In this connection, the net debt and net debt to adjusted EBITDA ratio were as follows:

in k €	Dec. 31, 2018	Dec. 31, 2017
Non-current financial liabilities . . . . .	978,386	816
Current financial liabilities . . . . .	444,943	1,257,105
Loan liabilities within other financial liabilities . . . . .	—	40,008
<b>Gross debt . . . . .</b>	<b>1,423,329</b>	<b>1,297,929</b>
Cash, cash equivalents and securities classified as available for sale . . . . .	343,794	243,195
<b>Net debt . . . . .</b>	<b>1,079,535</b>	<b>1,054,734</b>
<b>EBITDA (adjusted) . . . . .</b>	<b>503,481</b>	<b>433,862</b>
<b>Net debt to adjusted EBITDA ratio . . . . .</b>	<b>2.1</b>	<b>2.4</b>

The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. The loan of the shareholder amounts to € 929.6 million as of December 31, 2018 and is reported under non-current financial liabilities. In 2017, a loan in the amount of €40.0 million was already granted by Nidda Healthcare Holding GmbH in this connection. This loan was included in the calculation of net debt.

#### 49. Related party transactions

In the scope of the ordinary course of business STADA Arzneimittel AG and/or its consolidated companies have entered into related party transactions. In accordance with IAS 24, "Related Parties" refers to directly or indirectly controlled subsidiaries that are not consolidated due to lack of material significance, associates and joint ventures as well as affiliated companies and persons in key positions and their close relatives. In principle, all trades were settled with related companies and natural persons at market-rate conditions.

##### 49.1. Transactions with related persons

Persons in key positions are the members of governing bodies of STADA Arzneimittel AG, the remuneration of whom, including further information on the principles of the remuneration system, is presented in detail in the Combined Management Report (see "Remuneration Report"), as well as the summary in Note 50. in relation to quantitative disclosures.



## Notes to the Consolidated Financial Statements (Continued)

### 49. Related party transactions (Continued)

#### 49.2. Transactions with related companies

Bain Capital Investors, LLC, Wilmington, Delaware, USA, and Cinven (Luxco 1) S.A., Luxembourg, exercise direct joint control over the subsidiary Nidda Topco S.à r.l., which in turn indirectly over the following subsidiaries—Nidda Midco S.à r.l., Nidda German Topco GmbH, Nidda German Midco GmbH, Nidda BondCo GmbH and Nidda Healthcare Holding GmbH—through the direct shareholder Nidda Healthcare GmbH holds controlling interest in STADA Arzneimittel AG. The indirect subsidiary of Cinven (Luxco 1) S.A., Cinven Capital Management (VI) General Partner Limited, St. Peter Port, Guernsey, is the fund manager for certain entities of the Sixth Cinven Fund in the sense of an investment management company.

Trade accounts receivable and trade accounts payable of the STADA Group essentially relate to related party transactions as follows:

<u>in k €</u>	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
<b>Trade accounts receivable</b>		
Non-consolidated subsidiaries . . . . .	−9	23
Non-consolidated joint ventures . . . . .	178	169
Associates . . . . .	1,112	7,26
Joint ventures . . . . .	—	—
<b>Other financial receivables</b>		
Non-consolidated subsidiaries . . . . .	10	9
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—
<b>Trade accounts payable</b>		
Non-consolidated subsidiaries . . . . .	29	83
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	1,779	3,103
Joint ventures . . . . .	—	—
<b>Other financial liabilities</b> . . . . .	1,600	—
Non-consolidated subsidiaries . . . . .	—	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—

## Notes to the Consolidated Financial Statements (Continued)

### 49. Related party transactions (Continued)

Income and expenses of the STADA Group essentially relate to related party transactions as follows:

in k €	2018	2017
<b>Sales</b>		
Non-consolidated subsidiaries . . . . .	—	46
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	2,217	1,726
Joint ventures . . . . .	—	—
<b>Interest income</b>		
Non-consolidated subsidiaries . . . . .	—	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—
<b>Interest expense</b>		
Non-consolidated subsidiaries . . . . .	—	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	7	—
Joint ventures . . . . .	—	—

In addition, there are business relationships between STADA and its affiliated companies from which outstanding trade accounts payable in the amount of €0.5 million arise as of the reporting date December 31, 2018 (previous year: €0.4 million). The transaction volume with these companies in 2018 since the time of the takeover by Bain Capital and Cinven amounted to a total of €5.8 million (previous year: €2.7 million).

In addition, the following disclosures on related party transactions are made:

As of December 31, 2018, STADA Arzneimittel AG has a financial obligation to Nidda Healthcare Holding GmbH in the amount of €929.6 million (previous year: €40.0 million) with an interest rate of EURIBOR +3.5% p.a. (previous year: 1.81% p.a.). Further details on financial liabilities are provided in Note 37.

### 50. Remuneration of the Executive Board and the Supervisory Board

The aggregate remuneration of the Executive Board and the Supervisory Board including further information on the principles of the remuneration system are presented in detail in the Combined Management Report (see “Remuneration Report”).

## Notes to the Consolidated Financial Statements (Continued)

### 50. Remuneration of the Executive Board and the Supervisory Board (Continued)

In summary, the following disclosures regarding the remuneration of the Executive Board and Supervisory Board at STADA Arzneimittel AG are made in accordance with IAS 24 in consideration of the disclosure requirements of Section 314 (1) No. 6a Sentence 1-4 HGB:

in k €	Fixed and variable current remuneration		Variable remuneration non-current		Termination benefits		Expenses for pension commitments earned in the current year		Total remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Members of the Executive Board . . . . .	3,786 <sup>1</sup>	4,164 <sup>2</sup>	—	958 <sup>3</sup>	1,900	6,402	—	—	5,686	11,524
Members of the Supervisory Board . . . . .	786 <sup>4</sup>	1,089 <sup>5</sup>	—	—	—	—	—	—	786	1,089

As of December 31, 2018 there were outstanding liabilities to members and former members of the Executive Board in the amount of €2.1 million (previous year: €9.6 million).

Remuneration to former members of the Executive Board amounted to a total of k €11,384 in financial year 2018. The fair value of pension commitments to former Executive Board members amounted to k €47,257 as of December 31, 2018.

There were no loans granted to members of the Executive Board or Supervisory Board at STADA Arzneimittel AG as of the reporting date. Nor has STADA taken on any contingent liabilities for the benefit of the members of governing bodies of STADA Arzneimittel AG.

### 51. Fees for the auditor

For the services provided by the auditors PricewaterhouseCoopers GmbH and the auditors of the previous year PKF Deutschland GmbH, the following fees were recognized as expenses in financial year 2018 and in the previous year.

The following disclosures are made for the auditors PricewaterhouseCoopers GmbH:

in k €	2018	2017
Fees for the auditor . . . . .	1,021	1,508
• thereof for audits . . . . .	648	468
• thereof for other confirmation services . . . . .	104	—
• thereof for other services . . . . .	269	993
• thereof for tax consultancy services . . . . .	—	47

The following disclosures were made for the previous year for the auditors PKF Deutschland GmbH:

in k €	2018	2017
Fees for the auditor . . . . .	—	396
• thereof for audits . . . . .	—	370
• thereof for other confirmation services . . . . .	—	26
• thereof for other services . . . . .	—	—
• thereof for tax consultancy services . . . . .	—	—

<sup>1</sup> Thereof performance-related k €363, non-performance related k €3,423.

<sup>2</sup> Thereof performance-related k €458, non-performance related k €3,706.

<sup>3</sup> This resulted from final accounting of multi-year variable long-term special remuneration, "Long-Term Goals 2018," final account of LTIP 2016 as well as LTIP 2017 based on the severance agreement.

<sup>4</sup> Thereof performance-related k €329, non-performance related k €457.

<sup>5</sup> Thereof performance-related k €316, non-performance related k €773.

## Notes to the Consolidated Financial Statements (Continued)

### 51. Fees for the auditor (Continued)

The fees for audits relate to payment for the audit of the Consolidated Financial Statements as well as the Financial Statements of STADA Arzneimittel AG and its German subsidiaries at the end of the financial year. For financial year 2017, they also include the review of the Interim Consolidated Financial Statements of June 30, 2017.

Other services from PricewaterhouseCoopers GmbH relate primarily to services within the scope of due diligence processes.

### 52. Corporate Governance

The declaration on the German Corporate Governance Code prescribed by Section 161 of the German Stock Corporation Act was last issued by the Executive Board and Supervisory Board in December 2018. The declaration is publicly available via the Company's website ([www.stada.com/de](http://www.stada.com/de) in German or [www.stada.com](http://www.stada.com) in English) and is also presented in the Annual Report.

### 53. Events after the end of the financial year

After the closing date, the following events with significant or possibly significant effects on the net assets, financial position and results of operations of the STADA Group occurred:

- On December 20, 2018, STADA had announced that STADA and certain of its significant subsidiaries—in accordance with the directive issued by Nidda Healthcare GmbH (Nidda)—have granted certain in rem securities to secure capital market liabilities and other financial liabilities, which were raised or guaranteed by Nidda and its affiliated companies and for which these securities were accepted.<sup>1</sup> The grant of such in rem securities will give holders of the STADA €300,000,000 1.75% fixed rate bonds due 2022 the right to demand repayment of their principal and accrued interest on such STADA bonds. On January 8, 2019, STADA published the relevant tender offer, whose final expiration date is currently June 19, 2019.<sup>2</sup>

### 54. Dividend

In the reporting year, net profit of STADA Arzneimittel AG amounted to €0.00 and, due to the profit transfer, corresponds to the annual result. In view of the domination and profit and loss transfer agreement dated December 19, 2017, an amount of €134,189,487.01 will be transferred to Nidda Healthcare GmbH. Pursuant to the existing domination and profit and loss transfer agreement DPLTA, STADA Arzneimittel AG will no longer distribute dividends as of financial year 2018. Instead, Nidda Healthcare GmbH has undertaken to pay to the external shareholders of STADA Arzneimittel AG a compensation of €3.82 gross or €3.53 net under current taxation per STADA share for the duration of the agreement and accordingly also for financial year 2018. The compensation payment is due on the third banking day after the Annual General Meeting of STADA Arzneimittel AG for the financial year just ended, but no later than eight months after the end of the financial year in question.

Bad Vilbel, March 13, 2019



Peter Goldschmidt  
*Chairman of the Executive Board*



Mark Keatley  
*Chief Financial Officer*



Miguel Pagan Fernandez  
*Chief Technical Officer*

<sup>1</sup> See the Company's press release of December 20, 2018.

<sup>2</sup> See [www.stada.com/investor-relations/bonds/bond-2015/disclaimer.html](http://www.stada.com/investor-relations/bonds/bond-2015/disclaimer.html).

The following auditor's report (*Bestätigungsvermerk*) has been issued in accordance with Section 322 German Commercial Code (*Handelsgesetzbuch*) on the consolidated financial statements and the group management report (*Konzernlagebericht*) of STADA Arzneimittel AG as of and for the fiscal year ended December 31, 2018. The group management report is neither included nor incorporated by reference in this offering memorandum.

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

To STADA Arzneimittel AG, Bad Vilbel

### **REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT**

#### **Audit Opinions**

We have audited the consolidated financial statements of STADA Arzneimittel AG, Bad Vilbel, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of STADA Arzneimittel AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handels- gesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018,
- and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

#### **Basis for the Audit Opinions**

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.



## **Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of goodwill and other intangible assets
2. Revenue recognition including expected revenue reductions
3. Accounting treatment of material acquisitions

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

### **1. Recoverability of goodwill and other intangible assets**

1. The “Intangible assets” balance sheet item reported in the Company’s consolidated financial statements included EUR 389 million (11% of consolidated total assets) for “Goodwill” and EUR 1,145 million (32% of consolidated total assets) for “Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights”. While goodwill and other intangible assets with indefinite useful lives must be tested for impairment (“impairment test”) on an annual basis or if there are indications of impairment, such a test needs only to be carried out for intangible assets with definite useful lives if there are indications of impairment (“triggering events”).

Goodwill is tested for impairment at the level of the group of cash-generating units to which the relevant goodwill is allocated. In an impairment test, the carrying amount of the respective cash-generating unit (including the affected goodwill) is compared against the higher of the value in use and the fair value less costs of disposal. In a first step, the Company generally conducts the test based on the value in use. For the umbrella brands with indefinite useful lives, the relief from royalty method is initially applied.

The Company has identified certain indicators, which are monitored and in case of negative development trigger an impairment test for assets with definite useful lives. In the case of regulatory drug approvals, however, an impairment test is carried out in each instance at the end of the financial year. Brands and regulatory drug approvals are normally measured based on the present value of future cash flows generated by the affected asset from marketing the respective products. An impairment loss is recognized if the recoverable amount is less than the respective carrying amount.

Present value is calculated using discounted cash flow models. The starting point is the Group’s financial plan, which is projected forward using growth assumptions. The discount rate used is the weighted cost of capital for the relevant cash-generating unit or group of cash-generating units.

The result of this measurement depends to a large extent on estimates made by the executive directors’ with respect to future cash inflows and the discount rate used, the rate of growth and other assumptions and is therefore subject to considerable uncertainty. Against this background, and due to the complex nature of the measurement, this matter was of particular significance for our audit.

2. As part of our audit, we reviewed the methodological procedure adopted for the purpose of the impairment tests and assessed the calculation of the weighted cost of capital, among other things. We verified the appropriateness of the future cash inflows used in the measurement, including by comparing these disclosures with the current budgets in the financial plan prepared by the executive directors’ and approved by the supervisory board, and by reconciling them against general and sector-specific market expectations. We also assessed whether the basis for including the costs of Group functions was accurate. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused

our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. In order to reflect the uncertainty inherent in the projections, we reproduced the sensitivity analyses performed by the Company and carried out our own additional sensitivity analyses with respect to those cash-generating units with low headroom (recoverable amount compared with the carrying amount). Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company's disclosures on goodwill and intangible assets are contained in notes 9 "Accounting policies" and 24 "Intangible assets" to the consolidated financial statements.

## **2. Revenue recognition including expected revenue reductions**

1. The EUR 2,330.8 million reported under "Sales" in the Company's consolidated financial statements relate primarily to the sale of products and provision of services. Since large-volume transactions are involved, the company has established comprehensive processes and systems for recognizing and deferring sales. Revenue is recognized when the goods have been delivered or the services rendered. The transaction price is measured as the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services. Variable consideration is considered when measuring the transaction price (discounts to health insurance organizations, other health sector institutions and customers, as well as expected returns, among others). When recognizing revenue, material assumptions have to be made with respect to discounts that must subsequently be granted and returns that must subsequently be accepted, and the corresponding revenue adjustments have to be recognized.

Particularly in Germany, discount arrangements with health insurance organizations are agreed for a specific pharmaceutical ingredient by means of tenders over a specific period of time. The corresponding drug is initially sold to patients at a binding sales price, which is then subject to a discount subsequently granted to the respective health insurance organization.

The revenue adjustments are based to a large degree on the executive directors' estimates and assumptions and are therefore subject to considerable uncertainties. Against this background and due to the underlying complexity of the measurement on which this significant item in terms of its amount was based, this matter was of particular significance for our audit.

2. Our audit included assessing the appropriateness and effectiveness of the processes and controls within the Company's internal control system established to realize revenue and make revenue adjustments, including the IT systems used. To this end, we also involved our specialists from Risk Assurance Services (RAS). With the knowledge that the complexity of the accounting treatment and the estimates and assumptions to be made give rise to an increased risk of accounting misstatements, we assessed the appropriateness of the estimates made by the executive directors with respect to revenue adjustments. At the same time, we verified and assessed the methodology applied by the executive directors to make revenue adjustments. We also used the detailed information obtained to assess the relevant assumptions made by the executive directors as of the balance sheet date. In addition, we verified the consistency of the methods used by the Company to recognize revenue and make revenue adjustments. We also compared the revenue adjustments with contract documents.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors concerning the recognition and measurement of revenue were sufficiently documented and that the estimates applied and the assumptions made by the executive directors were consistently derived.

3. The Company's disclosures relating to revenue recognition are contained in notes 9 "Accounting policies" and 11 "Sales" to the consolidated financial statements.

## **3. Accounting treatment of material acquisitions**

1. In the Company's consolidated financial statements as of December 31, 2018, the Nizoral and Ladival trademarks are recognized at amortized cost of EUR 190.3 million under the "Intangible assets" balance sheet line item as material additions (EUR 195.6 million) during the reporting period. In

addition, control over the Bioceuticals Group was acquired as of September 30, 2018, due to the acquisition of a further 35.5% interest to total 51.3% of the shares of Bioceuticals Arzneimittel AG.

STADA Arzneimittel AG acquired the trademark to Nizoral as of June 21, 2018, and the trademark to Ladival as of June 17, 2018, for a total of EUR 195.6 million. The agreements are accounted for as an asset acquisition, whereby the acquired trademarks are carried at cost and amortized. In addition, the acquisition of control over the Bioceuticals Group was accounted for as a business combination by recognizing the acquired assets and liabilities at fair value. Taking into consideration the purchase price of EUR 35.0 million for the additional interest, the remeasurement of previously held interests as required under IFRS 3, and the EUR 78.3 million share of the net assets acquired attributable to STADA AG, this results in a bargain purchase of EUR 27.6 million recognized in profit or loss. In view of the complexity of identifying and measuring the assets and liabilities acquired as part of the business combination and the material cumulative impact of the acquisitions on the assets, liabilities, financial position and financial performance of the STADA Group, these were of particular significance in the context of our audit.

2. In auditing the accounting treatment of the acquisitions of intangible assets and shares, we began by inspecting and assessing the agreements. Among other things, we agreed the purchase prices paid by STADA Arzneimittel AG as consideration for the acquired assets and shares to the supporting documentation for the payments made, as provided to us. The recognition and measurement of the acquisitions was assessed in particular on the basis of the criteria for an asset acquisition or a business combination. We examined whether the acquisitions of the Nizoral and Ladival trademarks were properly accounted for as asset acquisitions and whether the acquisition of control over the Bioceuticals Group was properly accounted for as a business combination. For the business combination, we assessed the underlying opening balance sheets. A valuation report was available to us for the purchase price allocation performed pursuant to IFRS 3, and we assessed this report accordingly. Given the specific measurement characteristics, we were assisted by our internal valuation specialists. Among other things, they assessed the appropriateness of the methods on which the measurements were based as well as the measurement parameters used. We assessed fair values that were measured centrally (e.g., of customer relationships) by reconciling quantity structure with the original financial accounting records and the parameters used. We also used checklists to establish whether the requirements set out in IFRS 3 for disclosures in the notes to the financial statements had been complied with in full. We checked that the EUR 27.6 million bargain purchase was recognized under “Other income” in the consolidated income statement.

On the basis of our audit procedures, we were able to satisfy ourselves that the recognition in the financial statements of the acquisitions of intangible assets and the business combination under consideration of the assumptions and measurement parameters underlying the measurement is appropriate overall.

3. The Company’s disclosures on goodwill and intangible assets are contained in notes 8 “Business Combinations”, 9 “Accounting policies” and 24 “Intangible assets” to the consolidated financial statements.

### **Other Information**

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section “Corporate Governance Report including Statement on Corporate Governance” of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report—excluding cross-references to external information—with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit,
- or
- otherwise appears to be materially misstated.

### **Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group 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 consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is

higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the annual general meeting on June 6, 2018. We were engaged by the supervisory board on December 18, 2018. We have been the group auditor of the STADA Arzneimittel AG, Bad Vilbel, without interruption since the financial year 2017.



We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

**GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT**

The German Public Auditor responsible for the engagement is Dr. Bernd Roese.

Frankfurt am Main, March 13, 2019

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

[sgd. Dr. Bernd Roese]  
Wirtschaftsprüfer  
(German Public Auditor)

[sgd. ppa. Katrin Blumert]  
Wirtschaftsprüferin  
(German Public Auditor)

**CONSOLIDATED FINANCIAL STATEMENTS OF STADA ARZNEIMITTEL AG,  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

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## CONSOLIDATED INCOME STATEMENT

<u>Consolidated Income Statement in € k</u>	<u>2017</u>	<u>2016</u>	<u>Note</u>
Sales . . . . .	2,313,928	2,139,220	11.
Cost of sales . . . . .	1,177,994	1,105,313	12.
<b>Gross profit . . . . .</b>	<b>1,135,934</b>	<b>1,033,907</b>	
Selling expenses . . . . .	514,478	488,323	13.
General and administrative expenses . . . . .	199,701	182,696	14.
Research and development expenses . . . . .	67,471	65,111	15.
Other income . . . . .	41,265	19,279	16.
Other expenses . . . . .	203,260	138,933	
<b>Operating profit . . . . .</b>	<b>192,289</b>	<b>178,123</b>	
Result from investments measured at equity . . . . .	2,304	703	
Investment income . . . . .	– 1	24	
Financial income . . . . .	3,629	2,716	
Financial expenses . . . . .	50,475	54,137	
<b>Financial result . . . . .</b>	<b>– 44,543</b>	<b>– 50,694</b>	18.
<b>Earnings before taxes . . . . .</b>	<b>147,746</b>	<b>127,429</b>	
Income taxes . . . . .	52,985	31,938	19.
<b>Earnings after taxes . . . . .</b>	<b>94,761</b>	<b>95,491</b>	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income) . . . . .	85,323	85,904	
• distributable to non-controlling shareholders . . . . .	9,438	9,587	20.
Earnings per share in € (basic) . . . . .	1.37	1.38	21.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income in € k	2017	2016	Note
<b>Earnings after taxes</b> . . . . .	<b>94,761</b>	<b>95,491</b>	
<b>Items to be recycled to the income statement in future:</b>			
<b>Currency translation gains and losses</b> . . . . .	<b>– 58,987</b>	<b>– 13,914</b>	34.
thereof			
• income taxes . . . . .	– 4,250	– 1,493	19.
<b>Gains and losses on hedging instruments (cash flow hedges)</b> . . . . .	<b>—</b>	<b>913</b>	45.
thereof			
• income taxes . . . . .	—	– 360	19.
<b>Items not to be recycled to the income statement in future:</b>			
<b>Revaluation of net debt from defined benefit plans</b> . . . . .	<b>3,478</b>	<b>– 4,980</b>	35.
thereof			
• income taxes . . . . .	– 706	1,226	19.
<b>Other comprehensive income</b> . . . . .	<b>– 55,509</b>	<b>– 17,981</b>	
thereof			
• attributable to disposal groups held for sale in accordance with IFRS 5 . . . . .	– 176	—	
<b>Consolidated comprehensive income</b> . . . . .	<b>39,252</b>	<b>77,510</b>	
thereof			
• distributable to shareholders of STADA Arzneimittel AG . . . . .	37,985	66,520	
• distributable to non-controlling shareholders . . . . .	1,267	10,990	

## CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet in € k Assets	Dec. 31, 2017	Dec. 31, 2016	Note
<b>Assets</b>			
<b>Non-current assets</b> . . . . .	<b>1,880,574</b>	<b>1,949,543</b>	
Intangible assets . . . . .	1,474,342	1,582,361	24.
Property, plant and equipment . . . . .	332,738	322,715	25.
Financial assets . . . . .	1,978	2,236	26.
Investments measured at equity . . . . .	41,528	13,872	27.
Other financial assets . . . . .	1,087	4,450	29.
Other assets . . . . .	1,330	3,095	30.
Deferred tax assets . . . . .	27,571	20,814	19.
<b>Current assets</b> . . . . .	<b>1,323,952</b>	<b>1,490,901</b>	
Inventories . . . . .	499,012	484,904	31.
Trade accounts receivable . . . . .	520,441	489,071	28.
Income tax receivables . . . . .	14,346	12,816	19.
Other financial assets . . . . .	9,809	39,880	29.
Other assets . . . . .	35,323	28,690	30.
Cash and cash equivalents . . . . .	243,194	352,580	32.
Non-current assets and disposal groups held for sale . . . . .	1,827	82,960	33.
<b>Total assets</b> . . . . .	<b>3,204,526</b>	<b>3,440,444</b>	
<b>Equity and liabilities</b>	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>	
<b>Equity</b> . . . . .	<b>1,006,406</b>	<b>1,047,105</b>	34.
Share capital . . . . .	162,090	162,090	
Capital reserve . . . . .	514,206	514,189	
Retained earnings including net income . . . . .	717,364	673,253	
Other provisions . . . . .	– 430,013	– 379,074	
Treasury shares . . . . .	– 1,405	– 1,418	
<b>Equity attributable to shareholders of the parent</b> . . . . .	<b>962,242</b>	<b>969,040</b>	
Shares relating to non-controlling shareholders . . . . .	44,164	78,065	
<b>Non-current borrowed capital</b> . . . . .	<b>157,572</b>	<b>1,493,712</b>	
Other non-current provisions . . . . .	35,293	35,997	35.
Financial liabilities . . . . .	816	1,336,414	36.
Other financial liabilities . . . . .	4,032	3,916	38.
Other liabilities . . . . .	950	969	39.
Deferred tax liabilities . . . . .	116,481	116,416	19.
<b>Current borrowed capital</b> . . . . .	<b>2,040,548</b>	<b>899,627</b>	
Other provisions . . . . .	23,507	20,273	40.
Financial liabilities . . . . .	1,257,105	134,343	36.
Trade accounts payable . . . . .	340,642	336,844	37.
Income tax liabilities . . . . .	69,663	60,625	19.
Other financial liabilities . . . . .	226,108	214,031	38.
Other liabilities . . . . .	123,523	118,933	39.
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups . . . . .	—	14,578	33.
<b>Total equity and liabilities</b> . . . . .	<b>3,204,526</b>	<b>3,440,444</b>	



## CONSOLIDATED CASH FLOW STATEMENT

Consolidated Cash Flow Statement in € k	Dec. 31, 2017	Dec. 31, 2016	Note
Net income . . . . .	94,761	95,491	
Depreciation and amortization net of write-ups of non-current assets . . . . .	169,226	182,657	23.
Income taxes . . . . .	52,985	31,938	19.
Income tax paid . . . . .	– 56,588	– 18,580	
Interest income and expenses . . . . .	47,013	50,175	18.
Interest and dividends received . . . . .	3,829	4,161	
Interest paid . . . . .	– 45,447	– 50,548	
Result from investments measured at equity . . . . .	– 2,304	– 703	18.
Result from the disposal of non-current assets . . . . .	5,131	1,438	16./17.
Additions to / reversals of other non-current provisions . . . . .	8,307	3,127	35.
Currency translation income and expenses . . . . .	1,966	9,379	16./17.
Other non-cash expenses and gains <sup>1</sup> . . . . .	279,527	237,668	
<b>Gross cash flow . . . . .</b>	<b>558,406</b>	<b>546,203</b>	
Changes in inventories . . . . .	– 64,610	– 18,012	31.
Changes in trade accounts receivable . . . . .	– 31,505	1,248	28.
Changes in trade accounts payable . . . . .	– 27,009	13,576	37.
Changes in other net assets, unless attributable to investing or financing activities <sup>1</sup> . . . . .	– 172,401	– 209,493	
<b>Cash flow from operating activities . . . . .</b>	<b>262,881</b>	<b>333,522</b>	41.
Payments for investments in			
• intangible assets . . . . .	– 70,174	– 76,127	24.
• property, plant and equipment . . . . .	– 54,999	– 48,862	25.
• financial assets . . . . .	– 270	– 4,869	26.
• business combinations in accordance with IFRS 3 . . . . .	– 2,854	– 52,901	8.
Proceeds from the disposal of			
• intangible assets . . . . .	2,311	4,000	24.
• property, plant and equipment . . . . .	3,336	6,142	25.
• financial assets . . . . .	—	—	26.
• shares in consolidated companies . . . . .	6	854	
<b>Cash flow from investing activities . . . . .</b>	<b>– 122,644</b>	<b>– 171,763</b>	41.
Borrowing of funds . . . . .	71,326	494,145	36.
Settlement of financial liabilities . . . . .	– 250,292	– 389,973	36.
Settlement of finance lease liabilities . . . . .	– 1,350	– 903	
Dividend distribution . . . . .	– 46,048	– 50,616	34.
Capital increase from share options . . . . .	—	—	34.
Changes in non-controlling interests . . . . .	– 1,504	1,623	34.
Changes in treasury shares . . . . .	30	58	34.
<b>Cash flow from financing activities . . . . .</b>	<b>– 227,838</b>	<b>54,334</b>	41.
<b>Changes in cash and cash equivalents . . . . .</b>	<b>– 87,601</b>	<b>216,093</b>	41.
Changes in cash and cash equivalents due to the scope of consolidation . . . . .	– 12,920	– 3,431	
Changes in cash and cash equivalents due to exchange rates . . . . .	– 8,864	– 3,260	
<b>Net change in cash and cash equivalents . . . . .</b>	<b>– 109,385</b>	<b>209,402</b>	32.
<b>Balance at beginning of the period . . . . .</b>	<b>352,580</b>	<b>143,178</b>	
<b>Balance at end of the period . . . . .</b>	<b>243,195</b>	<b>352,580</b>	

<sup>1</sup> Non-cash additions to accruals for discounts to health insurance organizations in 2017 in the amount of € 136.5 million (2016: € 188.8 million) are recognized in gross cash flow and are therefore not included in changes in other net assets.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Consolidated Statement of Changes in Shareholders' Equity in € k 2017	Number of shares	Share capital	Capital reserve	Retained earnings including net income	Provisions for currency translation	Provisions for cash flow hedges	Treasury shares	Equity attributable to shareholders of the parent	Shares relating to non-controlling shareholders	Group equity
<b>Balance as of Dec. 31, 2017</b> . . . . .	<b>62,342,440</b>	<b>162,090</b>	<b>514,206</b>	<b>717,364</b>	<b>– 430,013</b>	<b>—</b>	<b>– 1,405</b>	<b>962,242</b>	<b>44,164</b>	<b>1,006,406</b>
Dividend distribution . . . . .				– 44,826				– 44,826	– 4,009	– 48,835
Capital increase from share options . . . . .								—	—	—
Changes in treasury shares . . . . .			17				13	30	—	30
Changes in retained earnings . . . . .								—	—	—
Changes in non-controlling interests . . . . .								—	2,746	2,746
Changes in the scope of consolidation . . . . .				13				13	– 33,905	– 33,892
Other income . . . . .				3,601	– 50,939			– 47,338	– 8,171	– 55,509
Net income . . . . .				85,323				85,323	9,438	94,761
<b>Balance as of Jan. 1, 2017</b> . . . . .	<b>62,342,440</b>	<b>162,090</b>	<b>514,189</b>	<b>673,253</b>	<b>– 379,074</b>	<b>—</b>	<b>– 1,418</b>	<b>969,040</b>	<b>78,065</b>	<b>1,047,105</b>
<b>Previous year</b>										
<b>Balance as of Dec. 31, 2016</b> . . . . .	<b>62,342,440</b>	<b>162,090</b>	<b>514,189</b>	<b>673,253</b>	<b>– 379,074</b>	<b>—</b>	<b>– 1,418</b>	<b>969,040</b>	<b>78,065</b>	<b>1,047,105</b>
Dividend distribution . . . . .				– 43,580				– 43,580	– 7,036	– 50,616
Capital increase from share options . . . . .								—	—	—
Changes in treasury shares . . . . .			18				40	58	—	58
Changes in retained earnings . . . . .								—	—	—
Changes in non-controlling interests . . . . .								—	1,623	1,623
Changes in the scope of consolidation . . . . .								—	—	—
Other income . . . . .				– 4,415	– 15,882	913		– 19,384	1,403	– 17,981
Net income . . . . .				85,904				85,904	9,587	95,491
<b>Balance as of Jan. 1, 2016</b> . . . . .	<b>62,342,440</b>	<b>162,090</b>	<b>514,171</b>	<b>635,344</b>	<b>– 363,192</b>	<b>– 913</b>	<b>– 1,458</b>	<b>946,042</b>	<b>72,488</b>	<b>1,018,530</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### General Information

#### 1. Corporate information

STADA Arzneimittel Aktiengesellschaft (STADA Arzneimittel AG) as the parent company of the STADA Group (hereafter referred to as “STADA”), located at Stadastrasse 2-18, 61118 Bad Vilbel, is an internationally-oriented company based in Germany and active throughout the world in the health care and pharmaceuticals markets, especially in the Generics and Branded Products segments.

The Consolidated Financial Statements of STADA Arzneimittel AG for financial year 2017 were approved for publication by the Executive Board on March 6, 2018.

#### 2. Basis of preparation of the financial statements

The Consolidated Financial Statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2017, were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC), as applicable in the European Union (EU), as well as in accordance with the supplementary provisions pursuant to Section 315a (1) of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. The individual financial statements of the companies included in the scope of consolidation are prepared as of the same date as the Consolidated Financial Statements.

The structure of the consolidated income statement follows the cost-of-sales method, according to which expenses incurred in generating sales are divided into functional areas. In the statement of comprehensive income, use was made of the option to present this separately from the consolidated income statement. The balance sheet classification distinguishes between non-current and current assets and liabilities, some of which are presented in detail in the notes according to their current or non-current distinction.

The Consolidated Financial Statements are prepared in euro. Unless otherwise indicated, figures in the notes are shown in euro thousands (€ k). Rounding is thus necessary, although this of course is not significant in its nature.

#### 3. Consequences of new or amended standards and interpretations

In financial year 2017, STADA observed and, if relevant, applied the pronouncements and amendments to pronouncements published by the IASB and endorsed by the EU which were first applicable as of January 1, 2017. The changes had no or no significant effect on the presentation of STADA's net assets, financial position and results of operations.

#### **The following IFRS standards, which are not yet applicable, have been published by the IASB:**

In July 2014, IASB published the standard IFRS 9 “Financial Instruments”. The standard replaces IAS 39 and introduces new rules for the classification, recognition and valuation of financial instruments. Furthermore, IFRS 9 also includes guidelines on the accounting of hedging transactions. IFRS 9 is to be applied for financial years beginning on or after January 1, 2018. STADA will apply the new standard for the first time as of January 1, 2018, pursuant to the transitional regulations of IFRS 9, an adjustment of prior-year figures is waived. Accordingly, the cumulative effect from initial application of IFRS 9 as of January 1, 2018 will be recognized in equity with no effect on profit or loss. This will likely result in the following impacts for the Consolidated Financial Statements of STADA:

The new regulations for the classification of financial assets will lead to changes for the receivables that can be factored in terms of their measurement and presentation as a result of the underlying business model. In the future, these will no longer be measured at amortized cost, but rather at fair value through profit or loss. Changes in the fair value of these receivables will in future be recognized directly in equity. Within the scope of the initial application as of January 1, 2018, this will result in no material effects.

Due to the new regulations on impairment, expected losses will in future be recognized as expenses earlier. In this context, STADA will apply the simplified approach for trade receivables as well as contract assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

As a result of the initial application of the impairment regulations in accordance with IFRS 9, as of January 1, 2018, the volume of impairments, on the basis of an analysis that is still to be finalized, will likely increase to somewhere in the magnitude of between € 6 million and € 9 million.

In May 2014, the IASB published the new standard IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 governs revenue recognition for contracts with customers in a 5-step model and in particular replaces the existing standards IAS 11 “Construction Contracts” and IAS 18 “Revenue”. IFRS 15 is to be applied for financial years beginning on or after January 1, 2018. Earlier application is permitted. STADA will apply the new standard for the first time as of January 1, 2018. In this context, STADA will exercise its right to choose the simplified initial application. Accordingly, the contracts that were not fully completed as of January 1, 2018 will be accounted for as if the new standard IFRS 15 were already applied when these contracts began so that the cumulative effect from the change will be recognized directly in equity. There is no adjustment of the comparable figures from the prior-year period.

In accordance with the preliminary analysis, from the initial application of IFRS 15 there is an increased cumulative effect in the likely amount of € 0.4 million to be recognized in retained earnings. The effect resulted primarily from the to be accounted contractual assets which in future are to be shown within the scope of return regulations and the deferred taxes to be established as a result. Furthermore, there will be reclassifications as result of down payments received from the trade payables and payments in the contractual liabilities in the likely amount of € 0.6 million. The new standard on revenue recognition will thus have little impact on sales accounting, as sales are largely realized in the Consolidated Financial Statements as a result of routine transactions. There are no agreements in the Group which regulate multiple services within one contract or within several contracts (multi-element arrangements). There will be no changes in the accounting of licensing agreements, which amounted to less than 2% of the total sales revenue in financial year 2017. All of STADA's license agreements are either bound to the achieved sales of the licensee or further activities are necessary on the part of STADA that would allow the use of the right by the licensee. If this were not the case for such license agreements, the result, due to the new IFRS 15 standard, future sales would be realized in the amount of the entire license fee with the granting of a license and therefore no longer, as they are presently, divided over the term of the license.

In January 2016, the IASB published the new IFRS 16 “Leases” standard, which determines the recognition of contractual rights (assets) and obligations (financial liabilities) associated with leases in the balance sheet for lessees. Lessees must therefore no longer classify leases as finance leases or operating leases. IFRS 16 is to be applied for financial years beginning on or after January 1, 2019. Earlier application is permitted. STADA will apply the new standard for the first time from January 1, 2019 and thereby likely modified retroactively, i.e. an adjustment of the prior-year figures will be waived. In this context, the rights of use will likely be equated with lease liabilities at the time of the change.

An examination of the impact of the application of IFRS 16 on the Consolidated Financial Statements has not yet been fully completed. As a result of the accounting of assets and liabilities in the lessee's balance sheet, as required by IFRS 16, a significant increase in the balance sheet total is expected at the point of initial application. In accordance with the currently existing leasing agreements and the currently available investigation results, STADA expects an accounting of use of rights in the amount of approximately € 40 million as well as recognition of leasing obligations in the amount of € 40 million. Instead of leasing expenses, as a result of amendments to IFRS 16, future depreciation and amortization and interest expenses will be recorded in the income statement—with a corresponding positive impact on the EBITDA. STADA, pursuant to the current status of the investigation, assumes that the depreciation of the currently existing leasing agreements will in future amount to approximately € 40 million. In addition, STADA expects future interest expenses in the amount of approximately € 10 million. In accordance with the previous requirements of IAS 17 “Leases”, these expenses would have been fully recognized in operating profit as a leasing expense and as a reduction of EBITDA. The changeover effect relates at STADA for the most part to leased real estate, company vehicles as well as office and business equipment.

Furthermore, in May 2017, IFRIC 23 “Uncertainty over Income Tax Treatments” was issued by the IASB, through which a clarification of the requirements of the approach and measurement of uncertain earnings positions arose. According to this, a company within the scope of the assessment of the uncertainty must estimate how probable the acceptance of the tax treatment of business transactions in the respective tax

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

jurisdictions is. The interpretation is to be applied for financial years which begin on or after January 1, 2019, whereby earlier application is permitted. STADA currently finds itself in the evaluation on the impact of IFRIC 23 on the Consolidated Financial Statements of the Company.

From today's perspective, no or no significant effects on the Consolidated Financial Statements are expected from the future application of the further standards and interpretations not yet applied.

### 4. Changes in accounting policies

There were no changes to accounting policies with significant consequences for the presentation of STADA's net assets, financial position and results of operations or cash flow in financial year 2017.

### 5. Scope of consolidation

All significant subsidiaries, joint ventures and associates are included in the Consolidated Financial Statements. Subsidiaries are companies that are directly or indirectly controlled by STADA and are therefore fully consolidated. Control exists if STADA Arzneimittel AG or its subsidiaries are in control of an investee, are exposed to variable backflows and, due to control over existing rights, are able to substantially influence the investee's variable backflows. Control is usually substantiated by a share of voting rights of more than 50%.

Joint arrangements are characterized by joint control by two or more parties and should be classified as either joint operations or as joint ventures. In joint operations, the parties that exercise joint control possess the rights to assets and liabilities included in the agreement. In joint ventures, however, the parties involved possess rights to the company's net assets. Joint ventures are to be included in the Consolidated Financial Statements using the equity method.

Associates are companies over which STADA can have significant influence and are not subsidiaries or joint ventures. They are included in the Consolidated Financial Statements using the equity method.

Subsidiaries, joint ventures and associates whose influence, both individually and as a whole, on the business, financial and earnings situation of the STADA Group is insignificant, are not consolidated or accounted for using the equity method. Investments in these companies are accounted for either at fair value or at amortized cost under financial assets. Accumulated, the sales and balance sheet total of these companies make up about 1% of total Group sales and/or the balance sheet total.

Changes in the scope of consolidation resulted regarding the number of subsidiaries, joint ventures and associates included in financial year 2017 and are as follows:

<u>Number of companies in the scope of consolidation</u>	<u>Germany</u>	<u>Outside Germany</u>	<u>Total</u>
<b>January 1, 2017</b> . . . . .	<b>12</b>	<b>76</b>	<b>88</b>
Acquisitions . . . . .	—	2	2
Disposals . . . . .	2	4	6
<b>December 31, 2017</b> . . . . .	<b>10</b>	<b>74</b>	<b>84</b>

As of January 1, 2017, the subsidiary STADA Pharmaceuticals Australia, Sydney, based in Australia, was included in the scope of consolidation.

Furthermore, the acquisition of Serbian Velefarm d.o.o., Belgrade, was completed in accordance with corporate law in the first quarter of 2017. The company was consolidated as a subsidiary for the first time on January 1, 2017.

STADA Import/Export International Ltd., Hong Kong, China, was also sold in the first quarter of 2017. The transaction was completed on March 29, 2017. The assets and liabilities of the company were reported as non-current assets and disposal groups held for sale and associated liabilities as of December 31, 2016. A gain of € 0.2 million was recorded with the deconsolidation of the company as of March 31, 2017.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Furthermore, on June 30, 2017, the legal merger of the German branded products companies STADA GmbH and STADAvita GmbH, subsequently trading as STADA GmbH, was completed as was the merger of STADApHarm GmbH and cell pharm Gesellschaft für pharmaceutische und diagnostische Präparate mbH, subsequently trading as STADAPHARM GmbH.

In the second quarter of the reporting year, there was an increase in the shareholding to 100% of the shares in the Thailand-based STADA subsidiary STADA (Thailand) Company Ltd.

In addition, as of July 19, 2017, the legal merger of the two Russian companies OOO STADA PharmDevelopment and OOO STADA CIS into OOO STADA Marketing and the continuation of the company name OOO STADA Marketing.

In October 2017, there was also a legal dissolution of the Dutch subsidiary HTP Huisapotheek B.V.

In the Consolidated Financial Statements of the STADA Group, 79 companies were consolidated as subsidiaries and five companies as associates as of the reporting date on December 31, 2017.

Unchanged from the previous year, BIOCEUTICALS Arzneimittel AG is included in the Consolidated Financial Statements as an associate in accordance with the equity method. STADA holds 15.86% of the shares in this company. The significant influence is therefore not directly due to the amount of shares held, but instead is a result of STADA's representation in the supervisory body of BIOCEUTICALS as well as distribution rights granted for Epo-zeta in Germany through STADAPHARM GmbH and the associated significant business transactions.

In addition, as was the case in the previous year, the two French companies Pharm Ortho Pedic SAS and AELIA SAS as well as the Russian Dialogfarma LLC were recognized as associates in accordance with the equity method in the Consolidated Financial Statements.

For the former Vietnamese subsidiary STADA Vietnam J.V., a contract was signed in the fourth quarter of 2017 for the sale of the shares held by in the company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale.

The following condensed financial information is given for these five associates:

<u>in € million</u>	<u>2017</u>	<u>2016</u>
Share of result from continuing operations . . . . .	2.3	0.7
Share of result from discontinued operations . . . . .	—	—
Share of other comprehensive income . . . . .	—	—
<b>Share of comprehensive income . . . . .</b>	<b><u>2.3</u></b>	<b><u>0.7</u></b>
Status change of STADA Vietnam J.V. . . . .	25.3	—
<b>Aggregate carrying amount . . . . .</b>	<b><u>41.5</u></b>	<b><u>13.9</u></b>

Significant non-controlling interests exist in the STADA Group as of December 31, 2017 in the Vietnamese subsidiaries Pymepharco Joint Stock Company. In the previous year, there were also significant non-controlling interests in the Vietnamese subsidiary STADA Vietnam J.V. which is now consolidated as an associate in the Consolidated Financial Statements.

Below, the influence of other shareholders in Pymepharco Joint Stock Company as of December 31, 2017 is presented:

<u>Name of subsidiary</u>	<u>Headquarters/ place of founding</u>	<u>Share in voting rights of non-controlling interests</u>	<u>Result of non-controlling interests in 2017 in € k</u>	<u>Accumulated non-controlling shares as of Dec. 31, 2017 in € k</u>
Pymepharco . . . . .	Vietnam	41%	3,964	32,126

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

The disclosures for the previous year are as follows:

Name of subsidiary	Headquarters/ place of founding	Share in voting rights of non-controlling interests	Result of non-controlling interests in 2016 in € k	Accumulated non-controlling shares as of Dec. 31, 2016 in € k
Pymepharco . . . . .	Vietnam	41%	3,459	32,114
STADA Vietnam J.V. . . . .	Vietnam	50%	4,935	32,266

In the following, the combined financial information of Pymepharco as of December 31, 2017 and for financial year 2017 is presented:

in € k	Assets as of Dec. 31, 2017		Liabilities as of Dec. 31, 2017	
	current	non-current	current	non-current
Pymepharco . . . . .	46,500	58,267	6,238	10,737

in € k	Sales	Earnings after taxes in 2017		Total earnings in 2017	Dividends to non-controlling interests in 2017
		distributable to STADA	distributable to non-controlling interests		
Pymepharco . . . . .	63,105	5,705	3,964	– 1,457	2,379

For the previous year, the following disclosures are made regarding the summarized financial information for Pymepharco and STADA Vietnam J.V.:

in € k	Assets as of Dec. 31, 2016		Liabilities as of Dec. 31, 2016	
	current	non-current	current	non-current
Pymepharco . . . . .	54,332	52,465	7,652	9,887
STADA Vietnam J.V. . . . .	44,111	39,482	6,087	7,715

in € k	Sales	Earnings after taxes in 2016		Total earnings in 2016	Dividends to non-controlling interests in 2016
		distributable to STADA	distributable to non-controlling interests		
Pymepharco . . . . .	60,576	4,978	3,459	10,370	1,623
STADA Vietnam J.V. . . . .	41,856	4,935	4,935	11,515	4,561

In the following, information on the cash flow for Pymepharco for financial years 2017 and 2016 is presented. Due to the deconsolidation of STADA Vietnam in financial year 2017, no information is included for the current reporting year.

in € k	Cash flow from operating activities		Cash flow from investing activities		Cash flow from financing activities	
	2017	2016	2017	2016	2017	2016
Pymepharco . . . . .	9,070	8,870	– 2,075	– 2,094	—	—
STADA Vietnam J.V. . . . .	—	10,605	—	– 2,679	—	– 9,366

Subsidiaries, joint ventures and associates as well as all non-consolidated and other investments pursuant to the regulations of Section 313 (2) HGB are included in the Consolidated Financial Statements as investments and listed below.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

#### Direct investments of STADA Arzneimittel AG:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
AO Nizhpharm, Nizhny Novgorod, Russia . . . . .	100%	subsidiary
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany . . . .	15.86%	subsidiary
Cicum Farma, Unipessoal, LDA, Paco de Arcos, Portugal . . .	100%	subsidiary
Crinos S.p.A., Milan, Italy . . . . .	96.77%	subsidiary
EG Labo—Laboratoires Eurogenerics SAS, Boulogne- Billancourt, France . . . . .	100%	subsidiary
EG S.p.A., Milan, Italy . . . . .	98.87%	subsidiary
Laboratorio STADA, S.L., Barcelona, Spain . . . . .	100%	subsidiary
Laboratorio Vannier S.A., Buenos Aires, Argentina . . . . .	85%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany . . . . .	100%	subsidiary
OOO Hemofarm, Obninsk, Russia . . . . .	10%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia . . . . .	10%	subsidiary
SCIOTEC Diagnostics Technologies GmbH, Tulln, Austria . . .	100%	subsidiary
Socialites Retail Germany GmbH, Bad Vilbel, Germany . . . .	100%	subsidiary
STADA Aesthetics Belgique (BVBA), Zaventem, Belgium . . .	100%	subsidiary/not included
STADA Aesthetics Deutschland GmbH, Bad Homburg, Germany . . . . .	100%	subsidiary/not included
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria . . .	100%	subsidiary
STADA d.o.o., Ljubljana, Slovenia . . . . .	100%	subsidiary
STADA d.o.o., Zagreb, Croatia . . . . .	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt <sup>3</sup> . . . . .	83.33%	subsidiary/not included
STADA LUX S.à R.L., Luxembourg, Luxembourg . . . . .	100%	subsidiary/not included
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria . . . . .	100%	subsidiary
STADA PHARMA CZ s.r.o., Prague, Czech Republic . . . . .	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India . .	85%	subsidiary/not included
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia . . . . .	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China . . . .	100%	subsidiary
STADA Pharmaceuticals Australia Pty. Ltd., Sydney, Australia	100%	subsidiary
STADA Poland Sp. z o.o., Piaseczno, Poland . . . . .	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
STADA (Shanghai) Company Management Consulting Co. Ltd., Shanghai, China . . . . .	100%	subsidiary/not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand . . . . .	50.9999%	subsidiary
STADA UK Holdings Ltd., Reading, United Kingdom . . . . .	100%	subsidiary

#### Indirect investments of STADA Arzneimittel AG through STADA PHARMA Bulgaria EOOD:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA M&D S.r.L., Bucharest, Romania . . . . .	0.00006%	subsidiary

#### Indirect investments of STADA Arzneimittel AG through EG Labo—Laboratoires Eurogenerics SAS:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
AELIA SAS, Saint Brieuc, France . . . . .	20%	associate
Pharm Ortho Pedic SAS, Trélazé, France . . . . .	25%	associate

<sup>3</sup> Currently in the process of liquidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
BSMW Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Clonmel Healthcare Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
Fresh Vape Electronic Cigarettes Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Internis Pharmaceuticals Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Lowry Solutions Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Natures Aid Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Pegach AG, Egerkingen, Switzerland . . . . .	100%	subsidiary
Slam Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites E-Commerce Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites Retail Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Sundrops Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Thornton & Ross Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and Thornton & Ross Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
LCM Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Thornton & Ross Ireland Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
Zeroderma Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Slam Trading Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
LAS Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites Nederlands B.V., Beuningen, Netherlands . . . . .	100%	subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
ALIUD PHARMA GmbH, Laichingen, Germany . . . . .	100%	subsidiary
Blitz F15-487 GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary/not included
Crinos S.p.A., Milan, Italy . . . . .	3.23%	subsidiary
Croma Medic, Inc., Manila, Philippines . . . . .	100%	subsidiary
EG S.p.A., Milan, Italy . . . . .	1.13%	subsidiary
Grippostad GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary/not included
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany . . . . .	91.67%	subsidiary
Laboratorio Vannier S.A., Buenos Aires, Argentina . . . . .	15%	subsidiary
PharmaSwyzz Deutschland GmbH, Bad Homburg, Germany . .	100%	subsidiary/not included
STADA Aesthetics AG, Bottighofen, Switzerland . . . . .	100%	subsidiary/not included
STADA CEE GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt <sup>4</sup> . . . . .	16.67%	subsidiary/not included
STADA GmbH, Bad Vilbel, Germany <sup>5</sup> . . . . .	100%	subsidiary
STADA Nordic ApS, Herlev, Denmark . . . . .	100%	subsidiary
STADAPHARM GmbH, Bad Vilbel, Germany <sup>6</sup> . . . . .	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India . .	15%	subsidiary/not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand . . . . .	49%	subsidiary
STADA-Ukraine, Kiev, Ukraine . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH and through STADA Aesthetics AG:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA Aesthetics Italia S.R.L., Verona, Italy . . . . .	100%	subsidiary/not included
STADA Aesthetics UK Limited, West Wickham, United Kingdom . . . . .	100%	subsidiary/not included

Indirect investments of STADA Arzneimittel AG through STADA GmbH:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA Medical GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Centrafarm Nederland B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia . . . . .	100%	subsidiary
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam . . . . .	49%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium . . . . .	90%	subsidiary
STADA MENA DWC-LLC, Dubai, United Arab Emirates . . . . .	100%	subsidiary

<sup>4</sup> Currently in the process of liquidation.

<sup>5</sup> As of June 30, 2017, the legal merger of the German brands company STADA GmbH and STADAvita GmbH, subsequently trading as STADA GmbH

<sup>6</sup> As of June 30, 2017, the legal merger of the German company STADapharm GmbH and cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, subsequently trading as STADAPHARM GmbH, was carried out.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and through Centrafarm Nederland B.V.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Centrafarm Services B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Healthypharm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Quatropharma Holding B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium . . . . .	10%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., through Centrafarm Nederland B.V. and through Quatropharma Holding B.V.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Centrafarm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China . . . . .	83.35%	subsidiary
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam . . . . .	50%	associate
STADA (Thailand) Company, Ltd., Bangkok, Thailand . . . . .	0.0001%	subsidiary
Well Light Investment Services JSC, Ho Chi Minh City, Vietnam <sup>7</sup> . .	49%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd. and through Well Light Investment Services JSC:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam . . . . .	10%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and through Pymepharco JSC and/or indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd., through Well Light Investment Services JSC and through Pymepharco JSC:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Dak Nong Pharmaceutical JSC, Dak Nong, Vietnam . . . . .	43%	associate/not included
Phu Yen Export Import Pharmaceutical JSC, Phu Yen, Vietnam . . . . .	20%	associate/not included
Quang Tri Pharmaceutical JSC, Quang Tri, Vietnam . . . . .	37.44%	associate/not included

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Clonmel Healthcare Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
CNRD 2009 Ireland Ltd., Dublin, Ireland . . . . .	50%	associate/not included
Crosspharma Ltd., Belfast, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
STADA Financial Investments Ltd., Clonmel, Ireland . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd., through Clonmel Healthcare Ltd. and through Genus Pharmaceuticals Holdings Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Britannia Pharmaceuticals Ltd., Reading, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

<sup>7</sup> The subsidiary is consolidated based on a contractual voting majority.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd., through Clonmel Healthcare Ltd., through Genus Pharmaceuticals Holdings Ltd. and through Britannia Pharmaceuticals Ltd.:

Name of the company, registered office	Share in capital	Form of consolidation
Brituswip Ltd., Reading, United Kingdom . . . . .	50%	associate/not included

Indirect investments of STADA Arzneimittel AG through AO Nizhpharm:

Name of the company, registered office	Share in capital	Form of consolidation
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan . . . . .	100%	subsidiary
OOO Aqualor, Moscow, Russia . . . . .	100%	subsidiary
OOO Dialogfarma, Moscow, Russia . . . . .	50%	associate
OOO Hemofarm, Obninsk, Russia . . . . .	90%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia <sup>8</sup> . . . . .	90%	subsidiary
UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania . . . . .	100%	subsidiary
ZAO Makiz-Pharma, Moscow, Russia . . . . .	100%	subsidiary
ZAO Skopinpharm, Ryazanskaya obl., Russia . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through Ciclum Farma, Unipessoal, LDA:

Name of the company, registered office	Share in capital	Form of consolidation
STADA, LDA, Paco de Arcos, Portugal . . . . .	98%	subsidiary/not included

Indirect investments of STADA Arzneimittel AG through Laboratorio STADA, S.L.:

Name of the company, registered office	Share in capital	Form of consolidation
STADA Genéricos, S.L., Barcelona, Spain . . . . .	100%	subsidiary/not included
STADA, LDA, Paco de Arcos, Portugal . . . . .	2%	subsidiary/not included

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and through Hemofarm A.D.:

Name of the company, registered office	Share in capital	Form of consolidation
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina . . . . .	91.50%	subsidiary
Hemofarm Komerc d.o.o., Skopje, Macedonia <sup>9</sup> . . . . .	99.18%	subsidiary/not included
Hemofarm S.à.R.L., Constantine, Algeria . . . . .	40%	associate/not included
Hemomont d.o.o., Podgorica, Montenegro . . . . .	71.02%	subsidiary
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany . . . . .	8.33%	subsidiary
Jinan Pharmaceuticals Co., Jinan, China . . . . .	35.50%	associate/not included
STADA HEMOFARM S.R.L., Temeswar, Romania . . . . .	100%	subsidiary
STADA IT Solutions d.o.o., Belgrade, Serbia . . . . .	100%	subsidiary
STADA M&D S.r.L., Bucharest, Romania . . . . .	99.99994%	subsidiary
Velefarm A.D., . . . . .	19.65%	Other investments/ not included
Belgrade, Serbia		
Velefarm d.o.o., Belgrade, Serbia . . . . .	100%	subsidiary
Vetfarm A.D., . . . . .	15%	Other investments/ not included
Belgrade, Serbia		

<sup>8</sup> As of July 19, 2017, the legal merger of the two Russian companies OOO STADA PharmDevelopment and OOO STADA CIS into OOO STADA Marketing, subsequently trading as OOO STADA Marketing.

<sup>9</sup> Currently in the process of liquidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Pegach AG:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Spirig HealthCare AG, Egerkingen, Switzerland . . . . .	100%	subsidiary

The exemption rule stated in Section 264 (3) of the HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, STADA GmbH, STADA Medical GmbH, STADA CEE GmbH, STADAPHARM GmbH, STADA Pharma International GmbH and Mobilat Produktions GmbH.

### 6. Principles for the consolidation of subsidiaries, joint ventures and associates

According to IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full—irrespective of the amount of the shareholding—as of the acquisition date at their fair values. If the historical costs of the subsidiary acquired exceed the proportionate newly measured net assets of the acquiree, STADA recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized through profit or loss in the period of the acquisition. In a business combination achieved in stages, it is necessary to carry out a revaluation through profit or loss of the shares previously held at the date control was achieved. The shares of non-controlling interests are disclosed in the amount of their share in net assets of the subsidiary.

The acquisition of additional shares from an existing controlling position in a subsidiary is recognized through other comprehensive income in accordance with IFRS 10, as it is a transaction between the equity investors.

Subsidiaries are generally included in the Consolidated Financial Statements from the acquisition date to the end of control by the parent company. Receivables, liabilities, expenses, income and earnings between the companies included in the Consolidated Financial Statements are eliminated, intercompany value adjustments and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Shares in associates are recognized according to the equity method at acquisition cost on the date when joint control is established (joint ventures) or when significant influence was established (associates) and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the carrying amount of the investment in the associate. A negative difference is recognized in income in the period of the acquisition in the results from associates. Profit and loss from transactions with associates is recognized in the Consolidated Financial Statements only according to the share of minority interests.

If indications arise from the application of IAS 39 that the carrying amount determined using the equity method might be impaired, an impairment test is carried out and, if applicable, an impairment loss in the amount of the difference between the carrying amount and the recoverable amount is recognized. The recoverable amount is the higher of the fair value less cost to sell and the value in use of the shares in an associate.

### 7. Currency translation

The functional currency of STADA Arzneimittel AG is the euro and represents the reporting currency of the Group.

In the separate financial statements of companies included in the Consolidated Financial Statements, foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transactions. On every balance sheet date, monetary items are translated using the closing rate and non-monetary items are translated using the transaction rate. Resulting currency translation differences are recognized in income as exchange gains or losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7. Currency translation (Continued)

The translation of the companies with a functional currency other than the euro included in the Consolidated Financial Statements into the Group functional currency is carried out using the closing rate method. Assets and liabilities are generally translated using the closing rate, while individual components of equity are translated using the historical rates at their respective dates of inflow from the Group's perspective. The income and expenses of the income statements are translated—and thereby also the resulting translation of the annual results to be entered in equity—using the average exchange rate of the period.

Currency translation differences arising from the use of different exchange rates are recognized directly in equity in the "Provisions for currency translation". These provisions are released and recognized in income if Group companies leave the scope of consolidation.

The exchange rate development of currencies important to STADA to the euro can be seen in the following chart:

Significant currency relations in local currency to € 1	Closing rate on Dec. 31 in local currency			Average rate for the reporting period		
	2017	2016	± %	2017	2016	± %
Pound sterling . . . . .	0.88723	0.85620	+4%	0.87614	0.81886	+7%
Swiss franc . . . . .	1.17020	1.07390	+9%	1.11156	1.09018	+2%
Russian ruble . . . . .	69.39200	64.30000	+8%	65.88766	74.22592	-11%
Serbian dinar . . . . .	118.47270	123.47230	-4%	121.41395	123.10467	-1%
Ukrainian hryvnia . . . . .	33.73180	28.42260	+19%	30.03099	28.28164	+6%
US dollar . . . . .	1.19930	1.05410	+14%	1.12928	1.10660	+2%

### 8. Business combinations

In financial year 2017, the following significant business combinations in the sense of IFRS 3 occurred, for which the preliminary purchase price allocation is described in more detail below.

The Serbian subsidiary of STADA Arzneimittel AG, Hemofarm A.D., acquired Serbian pharmaceutical wholesaler Velefarm d.o.o., based in Belgrade, Serbia, to strengthen the business activities on the Serbian market. The acquisition was completed with the aim of vertical integration in the Serbian market. The purchase price for the acquisition will total a maximum of € 1.0 million and will be or has already been fully paid in cash. The purchase was completed on January 6, 2017 after the competition authorities approved the purchase contract signed in October 2016.

The provisional purchase price allocation from this merger resulted in goodwill of € 0.1 million, which was attributable to the following:

in € million

Purchase price for 100% of the shares of the company approx. . . . .	1.0
Proportionate fair values of the assets and liabilities acquired approx. . . . .	0.9
<b>Goodwill . . . . .</b>	<b><u>0.1</u></b>

Goodwill resulted primarily from vertical integration in the Serbian market.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Business combinations (Continued)

The following fair values were applied at the acquisition date for the assets acquired and liabilities assumed in the context of business combinations:

#### Fair values in € million

Non-current assets . . . . .	0.4
Inventories . . . . .	17.3
Trade receivable . . . . .	10.1
Other assets . . . . .	2.8
Other current assets . . . . .	0.0
Cash and cash equivalents . . . . .	0.1
<b>Assets . . . . .</b>	<b><u>30.7</u></b>
Deferred tax liabilities . . . . .	0.0
Financial liabilities . . . . .	1.9
Trade payables . . . . .	27.4
Other current financial liabilities . . . . .	0.5
<b>Liabilities . . . . .</b>	<b><u>29.8</u></b>

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

The gross value of the trade receivables is € 10.2 million. € 0.1 million was deemed not recoverable. Trade accounts receivable were recorded at their fair value in the amount of € 10.1 million.

Sales generated with Velefarm amounted to around € 61.9 million in financial year 2017. The operating profit of this business combination adjusted for the effects of the purchase price allocation (around € 0.7 million) amounted to around € 0.1 million in the reporting year.

Business relationships with Serbian Hemofarm A.D. had already existed before the acquisition. In financial year 2016, these sales amounted to € 8.9 million.

### 9. Accounting policies

STADA's Consolidated Financial Statements are based on uniform accounting policies. The basis for these are the accounting requirements which are mandatory for all companies included in the Consolidated Financial Statements and which are described in more detail below insofar as they are significant for the Consolidated Financial Statements of STADA or for which option rights are exercised.

**Sales** are recognized when goods have been delivered or services rendered. This is on condition that it is reasonably probable that measurable economic benefits will flow to the entity and that the substantial risks and rewards of ownership have been transferred to the buyer. It must also be possible to reliably measure the Company's own costs incurred or to be incurred.

Sales are recognized before taxes and after deduction of revenue reductions (rebates or discounts) at fair value of the consideration received or receivable. Expenses from the creation of provisions for returns are deducted from sales on the basis of estimated amounts. The estimates are based on experience regarding amounts used in the past. The estimated expense from the creation of provisions is determined as a percentage of sales. Discounts to health insurance organizations are also recognized with a reduction on sales based on the respective contract in force.

Income and expenses from the same transactions are generally recognized in the same period. Expenses related to accruals for future revenue reductions are thus recorded in the period in which the sales are realized.

**Cost of sales** includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. The expense is recognized in the period in which the associated income is realized. In addition, cost of sales also includes costs directly attributable to the commercial goods (e.g. cost of materials and personnel expenses), overhead costs (e.g. scheduled depreciation of production



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

equipment and regulatory drug approvals and licenses) as well as value adjustments of excess or obsolete inventories.

**Development costs** consist of expenses involved initially in the technical implementation of theoretical discoveries in production and production processes and ultimately their commercial implementation.

As a rule, the objective of a development process at STADA is to obtain national or multinational regulatory drug approval. Downstream from the development process is an evaluation process at the end of which a decision on the actual execution of a development is made. Within the development process itself, development costs relative to approvals for new drugs obtained by STADA result in capitalization as intangible assets if all the following preconditions are met:

- It is technically possible to complete the asset (generally, achieve regulatory approval), enabling it to become available for use or sale.
- The intention and ability, as well as the necessary resources, exist to complete the asset and to use (i.e. usually to market it oneself) or sell it in the future.
- The intangible asset provides the Group with a future economic benefit.
- It is possible to reliably calculate the development costs of the intangible asset.

STADA immediately recognizes development costs not eligible for capitalization as expense in the periods in which they are incurred. These include expenses for technical and regulatory maintenance of products marketed.

**Goodwill** is not amortized over the period of useful life. Instead, an impairment test is performed at least once per year (impairment-only approach). For this purpose, goodwill is allocated to cash-generating units aggregated into operating segments, where a cash-generating unit corresponds to a market region within the two operating segments of the STADA Group for the purpose of an impairment test of goodwill.

STADA carries out impairment tests for capitalized goodwill at least once a year. Additional reviews also take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit including the carrying amount of goodwill to be tested. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% the expected long-term inflation rate is assumed. Significant assumptions made in order to determine the value in use include assumptions regarding sales development, regulatory conditions, investments, the discount rate, currency relations as well as the growth rate. These assumptions are made individually according to the individual situations for every cash-generating unit and are partly based on internally determined assumptions that both reflect past experience and include external market data.

**Other intangible assets** with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of their useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar rights is between three and 30 years. Expenses from scheduled amortization of intangible assets are allocated to the relevant functional costs and generally reported within cost of sales. If on the reporting date, there are indications that these assets are impaired, the recoverable amount of the asset is re-evaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indeterminable useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

these assets are compared with their carrying amounts and if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell was determined using the relief from royalty method. At STADA, this affects the umbrella brand Hemofarm capitalized in the context of the acquisition of the Hemofarm group, the umbrella brand Pymepharco capitalized in the context of achieving control over Pymepharco, and the umbrella brand Vannier capitalized in the context of the acquisition of Laboratorio Vannier. Impairment tests are carried out for the umbrella brands with indefinite useful lives at the level of the individual company or, for the umbrella brand Hemofarm, at the level of the individual companies that generate sales under the Hemofarm umbrella brand. Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Internal development costs are capitalized in accordance with the criteria in IAS 38. Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs, external services and directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years).

**Property, plant and equipment** is reported at cost less depreciation and any impairment losses plus write-ups. Depreciation shall begin when the asset is available for use and is accordingly in the condition necessary for it to be capable of operating. Subsequent acquisition costs are capitalized. Capitalization requires that a future economic benefit will flow to the company and that the cost of the asset can be reliably measured. Expenses for repairs and maintenance that do not represent significant replacement investments are recognized as expenses in the financial year in which they are incurred.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, eight to 20 years in the case of technical facilities and three to 14 years for other plant and office furniture and equipment. The component approach, according to which every significant component of property, plant and equipment with different useful lives, must be depreciated separately, is not applied at STADA due to a lack of relevance. To the extent necessary, impairment losses are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of the intangible asset or property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original historical costs.

**Impairments on other intangible assets and property, plant and equipment** exist when the recoverable amount of an asset is lower than its carrying amount. At each reporting date, STADA assesses whether indications for impairment are apparent. If this is the case, e.g. if certain defined critical values are exceeded, the asset's recoverable amount is determined. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for two operating segments with specific parameters. Expenses arising from impairments are recognized under "Other expenses".

For the purpose of impairment tests of other intangible assets and property, plant and equipment, cash-generating units within the STADA Group are defined at the level of individual assets within the reportable segments of Branded Products and Generics.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the item "Other income".

**Inventories** include such assets that are held for sale in the ordinary course of business (finished goods), that are in the process of production for such sale (work in progress), and that are consumed in the production process or in the rendering of services (materials and supplies). Inventories are measured at

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

the lower of cost and net realizable value. Historical costs or costs of sales are determined based on weighted average costs. Costs of sales include both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included, but are instead recognized as an expense in the period in which they occur. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Financial assets** can be broken down into the following categories in accordance with IAS 39: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are accounted for and measured pursuant to IAS 39. Accordingly, financial assets are, as a rule, initially recognized at fair value. In addition, for all financial assets which are subsequently measured at amortized costs, transaction costs directly attributable to the acquisition are to be taken into account. Different measurement policies apply for subsequent measurement in accordance with the applicable categories for financial assets pursuant to IAS 39. Cash transactions with financial assets are accounted for as of the settlement date.

**Trade accounts receivable** are measured at amortized cost less impairments using the effective interest rate method. Impairments are made in the form of individual impairments and general individual impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the expected default risk, STADA determines the expected future cash flows from receivables grouped by debtor. To this end, the maturity structures of net receivables and experience relating to derecognition of receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account. In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for various Group companies. The required impairment determined reduces the assets' carrying amounts through recognition of an impairment account.

The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

**Financial liabilities** are measured on initial recognition at fair value plus transaction costs directly attributable to the acquisition. For financial liabilities that subsequently continue to be measured at fair value, any transaction costs are recognized as an expense in the period in which they occur. This relates to the accounting of derivative financial instruments with negative market values that are not part of an effective hedging relationship and allocated to the category "at fair value through profit or loss" in accordance with IAS 39. STADA reports these financial liabilities in the "Other financial liabilities" item. Here, those derivative financial instruments are also included which serve to hedge interest rate and currency risks resulting from operating activities, financial transactions and investments, and which are also measured at fair value in accordance with the regulations of IAS 39 on hedge accounting. Unless market prices are available, fair value is determined with measurement models based on discounted cash flow models.

Fair value hedges serve to hedge against the risk of market value fluctuations. The results from the hedging instruments are generally recognized in the items of the income statement in which the hedged underlying transaction is also reflected. Within the scope of fair value hedge accounting, in addition to the fair value change in the derivative, the opposing fair value change in the underlying transaction is recognized in profit or loss, insofar as it is attributable to the hedged risk.

STADA has so far not made use of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

### 10. Estimates, assumptions and discretion in the application of accounting principles

The presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements is determined by recognition and valuation methods. To a certain extent, STADA makes estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly re-evaluated, estimates derived in this way may differ from actual

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 10. Estimates, assumptions and discretion in the application of accounting principles (Continued)

circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets evaluated according to IFRS 3 and the consideration transferred plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods are used for this that are primarily based on estimates and assumptions.

STADA carries out an impairment test for capitalized goodwill at least once a year. The discounted future cash flows of the cash-generating units, aggregated into operating segments, which are based on certain assumptions, are to be determined for this purpose. In this regard, both an allocation from “Corporate Assets” to the carrying amounts of the respective cash-generating units and an allocation from “Corporate Costs” are carried out in the calculation of the respective value in use on the basis of individual appropriate distribution keys. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years based on approved budgets. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% the expected long-term inflation rate is assumed. The budget values for future financial years, which are subject to some uncertainty due to unforeseeable future legal developments and developments in the health care market, as well as the parameters determined in the context of current market information but also as a best possible estimate mean that the assessment of impairment may differ from actual circumstances, and despite good forecasts in the reporting year an impairment requirement may be necessary in subsequent years.

For items of property plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are reported as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

STADA makes valuation allowances on receivables in order to anticipate losses expected in relation to insolvency of customers. The maturity structure of the net receivables and past experience in relation to bad debts as well as the customers’ creditworthiness are used as the criteria for evaluating the appropriateness of the valuation allowances. This does not, however, exclude the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial position of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in CEE countries.

STADA operates in various countries and is obliged to pay respective income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred taxes in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain items according to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on actual and deferred taxes and thus on the business, financial and earnings situation of the Group in the respective period. Furthermore, increasing importance within the STADA Group is being allotted to a comprehensive tax transfer-pricing model for the payment of intercompany services. Potential risks of non-recognition of these transfer prices for tax purposes is limited by way of the introduction of corresponding agreement procedures and a comprehensive definition of transfer prices in the form of a Group guideline.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 10. Estimates, assumptions and discretion in the application of accounting principles (Continued)

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows, which are already fixed or calculated by means of the current yield curve using so-called “forward rates”, are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the reporting date.

The amount of pension obligations from defined benefit plans is calculated using actuarial methods. This procedure is based upon assumptions, among other things, regarding the discount rate, life expectancy and future salary and pension increases. Changes to these assumptions can significantly influence the amount of future pension costs. For German Group companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2005G mortality tables. Outside Germany, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. The discount rate shall be based on long-term rates of return on high quality corporate bonds with fixed interest rates at the reporting date. In countries where there is no liquid market in such corporate bonds, the discount rate is determined on the basis of market yields on government bonds.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. STADA creates provisions if there is a present external obligation and a probable outflow of resources, i.e. if it is more likely to occur than not. Provisions in relation to pending legal disputes are created based on how STADA estimates the prospects of success of these methods. The determination of provisions for damages is also associated with substantial estimates and can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual expenses for returns may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g. discounts to health insurance organizations) prescribed by law and due to other regulatory requirements. These are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.

### Notes to the Consolidated Income Statement

#### 11. Sales

Sales at STADA primarily resulted from the supply of products and, to a much lesser extent, from license revenues. For information on the reporting of sales, please refer to the details included in Accounting Policies.

In financial year 2017, there was an increase in sales based primarily on strong sales development in the Belgian, Italian and Serbian generics business as well as in the Russian branded products business. Exchange rate effects and portfolio changes had a total influence of € 58.6 million on sales in the reporting year. For information on how sales are broken down according to segments, please refer to the “Segment reporting” in Note 42.

#### 12. Cost of sales

Cost of sales is divided into the following items:

in € k	2017	2016
Material expenses . . . . .	930,042	883,480
Impairment, depreciation and amortization . . . . .	106,900	100,976
Expenses from inventory write-downs . . . . .	43,215	28,207
Remaining cost of sales . . . . .	97,837	92,650
<b>Total . . . . .</b>	<b>1,177,994</b>	<b>1,105,313</b>

Impairment, depreciation and amortization in the amount of € 106.9 million (previous year: € 101.0 million) mainly included amortization on intangible assets, the ownership of which represents a necessary condition for the marketing of the products manufactured—in particular drug approvals.

Expenses from inventory write-downs included inventories written down to net realizable value netted with reversals. The reversals amounted to € 7.2 million in financial year 2017 (previous year: € 7.7 million).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 13. Selling expenses

Selling expenses comprise in addition to the costs for sales departments and sales force also the costs for advertising and marketing activities including samples for doctors. They also include all costs for logistics that occur for completed final products. Discounts in the form of free retail packages, so-called discounts in kind—if possible under the legal regulations in a national market—are not included. The resulting expenses are reported as a part of cost of sales.

In the reporting year, marketing expenses in the amount of € 220.7 million (previous year: € 210.4 million) corresponded to a share of 43% in selling expenses (previous year: 43%). In addition, selling expenses included depreciation in the amount of € 7.3 million (previous year: € 6.9 million).

### 14. General and administrative expenses

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

In 2017, the general and administrative expenses included depreciation in the amount of € 6.5 million (previous year: € 7.0 million).

General and administrative expenses increased in the reporting year by a total of € 17.0 million. The increase primarily resulted from increased consulting expenses in connection with various restructuring processes.

### 15. Research and development expenses

For information on the composition of research and development expenses, please refer to the details included in Accounting Policies.

In financial year 2017, research and development expenses increased by € 2.4 million compared to the previous year.

The research and development expenses included depreciation in the amount of € 2.2 million (previous year: € 2.3 million). Development costs for new products in the amount of € 21.5 million (previous year: € 28.4 million) were capitalized in financial year 2017 (see the Notes on the item “Intangible Assets”).

### 16. Other income

Other income is divided into the following items:

in € k	2017	2016
Income from write-ups . . . . .	13,995	3
Income from the reversal of impairments on receivables . . . . .	7,234	—
Income from the disposal of non-current assets . . . . .	2,026	—
Remaining other income . . . . .	18,010	19,276
<b>Total . . . . .</b>	<b>41,265</b>	<b>19,279</b>

Income from write-ups in financial year 2017 is made up of many individual items in the Group companies and related to the Generics segment with € 8.5 million and the Branded Products segment with € 5.5 million. The write-ups relate for the most part to various pharmaceutical approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

In the previous year, income from the reversal of impairments on receivables as well as income from disposal of non-current assets were presented net of the relevant position within other expenses, whereas in the reporting year a gross presentation of the positions mentioned was undertaken.

Income from disposal of non-current assets includes an amount of € 0.2 million which results from the sale of the subsidiary STADA Import/Export International Ltd. carried out in the first quarter of 2017. This resulted in a positive effect from the reversal of the currency translation reserve in the amount of € 0.2 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16. Other income (Continued)

The remaining other income includes, among other things, income from a settled compensation agreement reached as part of a legal dispute in Spain in the Generics segment as well as other income that cannot be directly allocated to the functional costs and which are made up of many immaterial individual items in the Group companies.

### 17. Other expenses

Other expenses are broken down as follows:

in € k	2017	2016
Expenses from valuation allowances on accounts receivable . . . . .	44,913	5,972
Currency translation expenses . . . . .	1,966	9,379
Impairment losses on non-current assets excluding goodwill . . . . .	60,356	65,480
Impairment losses on goodwill . . . . .	—	—
Losses from the disposal of non-current assets . . . . .	7,157	1,438
Remaining other expenses . . . . .	88,868	56,664
<b>Total . . . . .</b>	<b><u>203,260</u></b>	<b><u>138,933</u></b>

Other expenses include impairment losses in the amount of € 60.4 million (previous year: € 65.5 million) that exclusively relate to impairment losses on non-current assets excluding goodwill in the reporting year as well as the largest single position Fultium® D3 vitamin drops. In the previous year, impairment losses were primarily due to reorganization decisions in connection with the adapted corporate strategy. The impairment losses relate for the most part to various pharmaceutical approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

The item also included net currency translation expenses in the amount of € 2.0 million in the reporting year (previous year: € 9.4 million), made up of currency translation income of € 32.3 million (previous year: € 59.5 million) and currency translation expenses of € 34.3 million (previous year: € 68.9 million). This development was based in particular on opposing developments in the significant currencies in the regions CIS, whereas these currencies recorded a strong downward movement in the comparable period.

In other expenses, in the reporting year there are expenses from impairments on receivables in the amount of € 44.9 million (previous year: € 6.0 million) which for the most part relate to impairments due to payment defaults of a customer in Russia. In the previous year, this position was netted of income from the reversal of impairments on receivables, whereas in the current reporting period a gross presentation in other income as well as other expenses was undertaken.

Losses on the disposal of non-current assets resulted for the most part from the following situation: for the subsidiary STADA Vietnam J.V., a contract was concluded on the sale of the shares held by STADA in this company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale. In connection with the loss of control in this company, there was a loss in the total of € 5.5 million. This resulted in a positive effect from the reversal of the currency translation reserve in the amount of € 1.2 million.

Within remaining other expenses, personnel expenses are recognized in the amount of € 20.8 million (previous year: € 24.8 million) which in the reporting year mainly related to severances for former members of the Executive Board as well as restructuring expenses. In the previous year, this was particularly due to a severance payment for the former Chairman of the Executive Board Hartmut Retzlaff as well as further personnel expenses in connection with the merging of the German sales companies. The recurring personnel expenses are appropriately allocated to the respective specialist departments. The remaining other expenses in the previous year were influenced by the termination of the distribution agreement with the Belgian sales partner Omega Pharma and the associated damage payments.

In the reporting period, the item for remaining other expenses included consulting services in connection with the 2017 takeover by Bain Capital and Cinven in the amount of € 45.0 million, which is considered a

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 17. Other expenses (Continued)

special item in the financial year. Other consulting expenses are appropriately allocated to the respective specialist departments.

The item “other expenses” included in the previous year expenses in the amount of € 21.6 million in connection with the termination of substantial parts of the aesthetics business. These expenses particularly resulted from impairments to intangible assets, impairments to financial assets, a payment for the termination of the distribution agreement, the reduction in inventories, outstanding rental payments and severance payments.

### 18. Financial result

The **result from investments measured at equity** in financial year 2017 relates to the companies BIOCEUTICALS Arzneimittel AG, Pharm Ortho Pedic SAS and AELIA SAS as well as Dialogfarma LLC and are accounted for using the equity method.

**Investment income** primarily relates to profit distributions from companies not included in the Consolidated Financial Statements.

**Financial income and financial expenses** are composed of the interest result and other financial income and other financial expenses.

The interest result developed as follows:

in € k	2017	2016
Interest income . . . . .	3,462	2,716
Interest expense . . . . .	50,475	52,891
<b>Interest result . . . . .</b>	<b>47,013</b>	<b>50,175</b>

thereof from financial instruments of the valuation categories in accordance with IAS 39:

• loans and receivables . . . . .	3,462	2,716
• financial assets and liabilities at fair value through profit and loss . . . . .	– 14,258	– 12,711
• held-to-maturity investments . . . . .	—	—
• available-for-sale financial assets . . . . .	—	—
• financial liabilities measured at amortized costs . . . . .	– 35,304	– 39,120

In addition, the interest result in financial year 2017 included a net interest expense from other non-current provisions, which comprises interest income on plan assets as well as interest expenses from pension obligations and other non-current provisions, in the amount of € 0.9 million (previous year: € 1.1 million).

In financial year 2017, the Group refinanced itself at interest rates of between 0.8% p.a. and 27.0% p.a. (previous year: between 0.7% p.a. and 26.0% p.a.). As of the balance sheet date December 31, 2017, the weighted average interest rate for non-current financial liabilities was approximately 25.51% p.a. (previous year: approx. 1.66% p.a.). The strong increase over the previous year is attributable to the high interest rates in Argentina. The non-current financial liabilities reported as of December 31, 2017 in the STADA Group relate exclusively to the Argentinian Laboratorio Vannier S.A. As of the balance sheet date December 31, 2017, the weighted average interest rate for current financial liabilities was approximately 1.78% p.a. (previous year: approx. 3.12% p.a.).

Borrowing costs capitalized as part of the cost of qualifying assets amounted to € 1.5 million in financial year 2017 (previous year: € 1.4 million). A capitalization rate of 1.6% for intangible assets (previous year: 2.0%) was taken as a basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18. Financial result (Continued)

Other financial income and other financial expenses consist of the following:

in € k	2017	2016
<b>Other financial income</b> . . . . .	<b>167</b>	<b>—</b>
thereof		
• from the measurement of financial instruments . . . . .	167	—
• from the disposal of financial instruments . . . . .	—	28
<b>Other financial expenses</b> . . . . .	<b>—</b>	<b>1,246</b>
thereof		
• from the measurement of financial instruments . . . . .	—	518
• from the disposal of financial instruments . . . . .	—	728

The result from the measurement of financial instruments in the reporting year resulted from interest rate swaps and interest rate/currency swaps measured at fair value through profit or loss which expired in the fourth quarter of 2017 as planned. The measurement of interest rate hedge transactions thereby depends on the development of the money market interest rate.

Earnings from the disposal of financial instruments resulted in the previous year within the scope of the early utilization of interest rate swaps.

### 19. Income taxes

The item income taxes includes taxes on income and earnings paid or owed in the individual countries as well as deferred tax liabilities. Other taxes that cannot be meaningfully attributed to the sales, administration or research and development functions are included in other expenses.

Actual income taxes recognized in the income statement can be divided according to timing as follows:

in € k	2017	2016
<b>Actual income taxes</b> . . . . .	<b>61,603</b>	<b>54,212</b>
Tax expense in the current period . . . . .	59,677	50,288
Tax expense from previous periods . . . . .	2,490	4,619
Tax income from previous periods . . . . .	564	695

Deferred taxes recognized in the income statement are made up of the following:

in € k	2017	2016
<b>Deferred taxes</b> . . . . .	<b>– 8,618</b>	<b>– 22,274</b>
• from temporary differences . . . . .	– 10,909	– 30,073
• from loss/interest carryforwards . . . . .	2,291	7,799
• from tax credits . . . . .	—	—
• from others . . . . .	—	—

The effective income tax rate amounted to 35.9% for financial year 2017. The effective income tax rate in the previous year was 25.1%. The nominal income tax rate amounted to 28.3% in financial year 2017 for STADA Arzneimittel AG in Germany, this includes corporation tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% as well as trade income tax with an assessment rate of 357%. The nominal income tax rate of STADA Arzneimittel AG is thus unchanged as compared to the previous year.

For temporary differences from undistributed earnings of subsidiaries in the amount of € 17.6 million, no deferred tax liabilities were established, because these profits will be reinvested for an indefinite period.

The following overview explains how the effective income tax expense reported in the income statement was derived from the expected income tax expense. The expected income tax expense is calculated by applying the nominal tax rate of a corporation headquartered in Bad Vilbel to earnings before taxes. The

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19. Income taxes (Continued)

tax effects of the respective tax rates to be applied locally depending on their applicable national and legal forms are reported in a separate reconciliation.

in € k	2017	2016
<b>Earnings before taxes</b> . . . . .	<b>147,746</b>	<b>127,429</b>
Nominal income tax rate of STADA Arzneimittel AG (in %) . . . . .	28.3%	28.3%
<b>Expected income tax expense</b> . . . . .	<b>41,842</b>	<b>36,088</b>
Deviation in local tax rate . . . . .	– 12,356	– 8,701
Tax effects from non-deductible impairment on investments and goodwill . . . . .	—	—
Tax effects from loss carryforwards, interest carryforwards and prior-year taxes . . .	8,456	– 9,743
Effects from tax rate changes . . . . .	– 89	– 4,157
Tax effects from non-deductible expenses and tax-free earnings . . . . .	9,187	19,436
Tax effects from deconsolidation . . . . .	5,788	—
Other tax effects . . . . .	157	– 985
<b>Income tax expense shown on the income statement</b> . . . . .	<b>52,985</b>	<b>31,938</b>
Effective income tax rate (in %) . . . . .	35.9%	25.1%

Deviations in the local tax rate resulted for the most part from low nominal tax rates in the United Kingdom and Russia.

Tax effects from loss/interest carryforwards resulted for the most part from unusable interest expenses due to the interest barrier rule that was newly-introduced in the United Kingdom in 2017.

Tax effects from tax rate changes resulted, as was the case in the previous year, for the most part from a lowering of the tax rate in the United Kingdom as of April 1, 2017.

The tax effects from the deconsolidation resulted from the change of control at STADA Vietnam J.V. and the change of status associated with it.

The actual income taxes and deferred taxes recognized in the balance sheet were as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Income tax receivables . . . . .	14,346	12,816
Income tax liabilities . . . . .	69,663	60,625

in € k	2017	2016
Deferred tax assets . . . . .	24,472	20,814
Deferred tax liabilities . . . . .	113,382	116,416
Deferred taxes as of December 31 . . . . .	– 88,910	– 95,602
Difference compared to previous year . . . . .	6,692	30,566
thereof		
• recognized in income . . . . .	8,618	22,274
• recognized through other comprehensive income . . . . .	– 4,956	– 627
• acquisitions/disposals/changes in the scope of consolidation . . . . .	– 4,774	– 3,276
• reclassifications in accordance with IFRS 5 . . . . .	4,916	5,490
• currency translation differences . . . . .	2,888	6,705



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19. Income taxes (Continued)

Deferred taxes result from the following balance sheet items and loss carryforwards:

in € k	Dec. 31, 2017 Deferred tax assets	Dec. 31, 2016 Deferred tax assets	Dec. 31, 2017 Deferred tax liabilities	Dec. 31, 2016 Deferred tax liabilities
Intangible assets . . . . .	3,078	2,684	117,434	123,318
Property, plant and equipment . . . . .	1,764	1,816	7,524	6,187
Financial assets . . . . .	791	830	591	652
Inventories . . . . .	14,081	10,824	1,201	909
Receivables . . . . .	8,484	8,896	374	3,919
Other assets . . . . .	2,956	2,180	41	28
Other non-current provisions . . . . .	2,438	5,079	708	464
Other provisions . . . . .	3,337	1,966	4,528	6,715
Liabilities . . . . .	1,736	4,713	1,184	367
Loss carryforwards . . . . .	6,010	7,969	—	—
<b>Total . . . . .</b>	<b>44,675</b>	<b>46,957</b>	<b>133,585</b>	<b>142,559</b>
Offsetting . . . . .	-17,104	-26,143	-17,104	-26,143
<b>Deferred taxes as per balance sheet . . . . .</b>	<b>27,571</b>	<b>20,814</b>	<b>116,481</b>	<b>116,416</b>

Deferred tax liabilities reported by STADA resulted, among other things, from deferred taxes in the context of purchase price allocations carried out under IFRS 3. The reduction in deferred tax liabilities from intangible assets compared with the previous year was primarily a result of scheduled amortization on intangible assets with purchase price allocations measured in accordance with IFRS 3, as well as from impairments on such assets.

Tax advantages that are expected from the future utilization of tax loss carryforwards are reported under “Tax loss carryforwards”, insofar as their utilization is probable. Tax loss carryforwards capitalized as of the balance sheet date on the December 31, 2017 reporting date amounted to € 25.7 million in financial year 2017 (previous year: € 30.9 million).

Tax effects from loss and interest carryforwards led in the financial year to an increase in the income tax expense in the amount of € 3.1 million (previous year: reduction in the income tax expense by € 6.1 million). This development was primarily influenced by British tax law which, from April 1, 2017 for the first time limits the deduction of operating expenses for interest (interest barrier) which led to an interest carryforward for which no deferred tax assets were established.

The future usable tax loss carryforwards and similar items are listed in the following chart according to their expiry date:

in € k	Dec. 31, 2017	Dec. 31, 2016
Loss carryforward expiry date within		
• 1 year . . . . .	865	—
• 2 years . . . . .	248	799
• 3 years . . . . .	—	—
• 4 years . . . . .	23	—
• 5 years . . . . .	5,914	707
• more than 5 years . . . . .	1,168	416
• unlimited carryforward . . . . .	17,455	28,936

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19. Income taxes (Continued)

No deferred taxes were recognized for the following tax loss carryforwards and similar items as it is not probable that they will be realized in the foreseeable future:

in € k	Dec. 31, 2017	Dec. 31, 2016
Expiry date for loss carryforwards and similar items within		
• 1 year	250	—
• 2 years	692	—
• 3 years	642	—
• 4 years	789	—
• 5 years	284	—
• more than 5 years	10,223	19,470
• unlimited carryforward	17,872	84,055
Temporary differences	—	– 426

### 20. Income attributable to non-controlling interests

in € k	Dec. 31, 2017	Dec. 31, 2016
<b>Earnings after taxes</b>	<b>94,761</b>	<b>95,491</b>
• thereof distributable to shareholders of STADA Arzneimittel AG (net income)	85,323	85,904
• thereof distributable to non-controlling interests	9,438	9,587

Profit attributable to non-controlling interests pertains to the subsidiaries Hemofarm Banja Luka, Hemomont, Pymepharco, STADA Import/Export International Ltd., STADA Pharmaceuticals (Beijing), STADA Thailand and STADA Vietnam J.V.

### 21. Earnings per share

The basic earnings per share were as follows:

Basic earnings per share	2017	2016
Net income (in € k)	85,323	85,904
Adjustment	—	—
<b>Adjusted net income (basic) (in € k)</b>	<b>85,323</b>	<b>85,904</b>
Average number of registered shares <sup>10</sup> issued (in unit shares)	62,342,440	62,342,440
Average number of treasury shares (in unit shares)	84,389	85,908
<b>Adjusted average number of shares (basic) (in unit shares)</b>	<b>62,258,051</b>	<b>62,256,532</b>
<b>Basic earnings per share (in €)</b>	<b>1.37</b>	<b>1.38</b>

Basic earnings per share are calculated by dividing the adjusted net income distributable to the shareholders of STADA Arzneimittel AG by the time-weighted average number of registered shares with restricted transferability outstanding<sup>11</sup>.

<sup>10</sup> On August 26, 2016, the STADA Annual General Meeting resolved to eliminate restrictions on the transferability of registered shares by means of a change to the Articles of Incorporation. The change to the Articles of Incorporation was entered in the commercial register on December 9, 2016 and took effect on this date. Therefore, since that time, the authorization from approved capital pursuant to Section 6 (1) of the Articles of Incorporation therefore relates to registered shares with no transferability restrictions.

<sup>11</sup> On August 26, 2016, the STADA Annual General Meeting resolved to eliminate restrictions on the transferability of registered shares by means of a change to the Articles of Incorporation. The change to the Articles of Incorporation was entered in the commercial register on December 9, 2016 and took effect on this date. Therefore, since that time, the authorization from approved capital pursuant to Section 6 (1) of the Articles of Incorporation therefore relates to registered shares with no transferability restrictions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 22. Number of employees and personnel expenses

The average number of employees at STADA by functional area and functional sub-area is as follows:

	<u>2017</u>	<u>2016</u>
Marketing/Sales . . . . .	3,102	3,089
Logistics . . . . .	434	360
Finance/IT . . . . .	724	707
Production/Quality Assurance . . . . .	4,675	4,809
Procurement/Supply Chain . . . . .	338	340
Product Development . . . . .	618	623
Administration . . . . .	941	911
<b>Entire Group . . . . .</b>	<b><u>10,832</u></b>	<b><u>10,839</u></b>
<b>Personnel expenses (in € million) . . . . .</b>	<b><u>387.5</u></b>	<b><u>365.7</u></b>

The average number of employees in the reporting year was approximately at the level of the previous year at 10,832 (previous year: 10,839). The significant additions to the number of employees reached are based on the acquisition of a Serbian product portfolio including the associated sales structures, the purchase of the British branded product company Natures Aid and the assumption of sales activities in Belgium. Although all three measures were attributable to financial year 2016, they nevertheless resulted in an increase in personnel mainly in the reporting year. Furthermore, there was an increase in the number of employees resulting from the initial consolidation of the Serbian wholesaler Velefarm d.o.o. in 2017. This was countered by the deconsolidation of STADA Vietnam J.V. as of November 30, 2017 and the average number of employees thus remained at the level of the previous year. As of the balance sheet date, the STADA Group's number of employees in 2017 decreased by 7% to 10,176 (previous year: 10,923), this reduction resulted mainly from the deconsolidation of STADA Vietnam J.V.

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, increased in financial year 2017 to € 387.5 million (previous year: € 365.7 million). The increase resulted, among other things, from the increase in the number of employees in Belgium, the United Kingdom and Serbia.

### 23. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses were incurred on intangible assets and property plant and equipment as follows:

<u>in € k</u>	<u>2017</u>	<u>2016</u>
<b>Depreciation/amortization . . . . .</b>	<b><u>122,865</u></b>	<b><u>117,180</u></b>
Intangible assets . . . . .	86,470	83,506
Property, plant and equipment . . . . .	36,395	33,674
<b>Impairment losses . . . . .</b>	<b><u>60,356</u></b>	<b><u>65,480</u></b>
Intangible assets . . . . .	55,681	61,807
thereof		
• goodwill . . . . .	—	—
Property, plant and equipment . . . . .	4,268	223
thereof		
• land and buildings . . . . .	3,242	36
• plant and machinery . . . . .	268	97
• other fixtures and fittings, tools and equipment . . . . .	332	90
• down payments . . . . .	426	—
Financial assets . . . . .	407	3,450
thereof		
• investments . . . . .	407	3,450

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23. Depreciation, amortization and impairment losses (Continued)

While depreciation and amortization are included in expenses of the individual functional areas according to their functional relevance, there is a presentation within other expenses for impairment losses.

The impairment of intangible assets concerns various drug approvals and trademarks, the scheduled amortization of which is reported within cost of sales.

Impairment losses on financial assets recognized in the reporting year relate to a number of items which, individually, were immaterial. In the previous year, impairment losses resulted for the most part from the termination of substantial parts of the aesthetics business.

Depreciation and amortization increased by 4.9% compared to the previous year. More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

### Notes to the Consolidated Balance Sheet

#### 24. Intangible assets

Intangible assets developed as follows in financial year 2017:

2017 in € k	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
<b>Cost as of Jan. 1, 2017</b>	<b>1,907,273</b>	<b>478,826</b>	<b>214,526</b>	<b>2,600,625</b>
Currency translation	– 40,684	– 9,256	– 1,850	– 51,790
Changes in the scope of consolidation	– 26,584	– 5,097	—	– 31,681
Additions	12,171	—	44,856	57,027
Additions from business combinations according to IFRS 3	248	80	—	328
Disposals	4,797	—	1,050	5,847
Reclassifications from non-current assets and disposal groups held for sale	30,387	5,785	—	36,172
Reclassifications to non-current assets and disposal groups held for sale	2,395	—	—	2,395
Reclassifications	37,250	—	– 37,221	29
<b>Cost as of Dec. 31, 2017</b>	<b>1,912,869</b>	<b>470,338</b>	<b>219,261</b>	<b>2,602,468</b>
<b>Accumulated depreciation as of Jan. 1, 2017</b>	<b>877,124</b>	<b>74,242</b>	<b>66,898</b>	<b>1,018,264</b>
Currency translation	– 10,638	– 463	– 449	– 11,550
Changes in the scope of consolidation	– 8,258	– 608	—	– 8,866
Scheduled amortization	86,470	—	—	86,470
Impairment	42,452	—	13,229	55,681
Disposals	3,788	—	574	4,362
Write-ups	13,995	—	—	13,995
Reclassifications from non-current assets and disposal groups held for sale	7,169	690	—	7,859
Reclassifications to non-current assets and disposal groups held for sale	1,375	—	—	1,375
Reclassifications	77	—	– 77	0
<b>Accumulated amortization as of Dec. 31, 2017</b>	<b>975,238</b>	<b>73,861</b>	<b>79,027</b>	<b>1,128,126</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b>	<b>937,631</b>	<b>396,477</b>	<b>140,234</b>	<b>1,474,342</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b>	<b>1,030,149</b>	<b>404,584</b>	<b>147,628</b>	<b>1,582,361</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Intangible assets (Continued)

Additions from business combinations according to IFRS 3, which relate to the fair value calculated in the context for the purchase price allocations resulted in the reporting year from the acquisition of the Serbian wholesaler Velexfarm d.o.o.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to STADA Vietnam J.V., which in the previous year was considered as IFRS 5 reporting.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to an approval for an Italian branded product.

The umbrella brand Hemofarm capitalized in 2006 in the context of the acquisition of the Hemofarm group is included in recognized trademarks as an intangible asset with an indefinite useful life, as STADA intends to make continuing use of it. As at December 31, 2017, this umbrella brand has a carrying amount of € 38.9 million (previous year: € 37.4 million). In the context of the impairment test of December 31, 2017, a royalty rate of 2% and a discount rate of 10.8% were used. There was no necessity for impairment in the reporting year. In addition, the change compared to the previous year figure of € 1.5 million is attributable to different exchange rates.

Furthermore, in the context of the control achieved over Pymepharco in 2013, the umbrella brand Pymepharco was capitalized as an intangible asset with an indefinite useful life as a trademark, as STADA intends to continue to use the trademark. As at December 31, 2017, these have a carrying amount of € 8.6 million (previous year: € 9.7 million). The change is a result of different exchange rates. In the context of the impairment test of December 31, 2017, a royalty rate of 2% and a discount rate of 12.5% were used. There was no necessity for impairment for the reporting year.

As part of the acquisition of Laboratorio Vannier in the previous year, the umbrella brand Vannier was capitalized as an intangible asset and an indefinite useful life as a trademark as STADA intends to continue to use the trademark. As at December 31, 2017, this umbrella brand has a carrying amount of € 0.2 million (previous year: € 0.3 million). In the context of the impairment test of December 31, 2017, a royalty rate of 2% and a discount rate of 17.8% were used. There was no necessity for impairment for the reporting year.

Borrowing costs capitalized in 2017 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to € 1.5 million (previous year: € 1.4 million). In financial year 2017, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 1.6% (previous year: 2.0%).

Development costs of € 23.9 million were capitalized in the reporting year (previous year: € 31.0 million). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life (generally 20 years). STADA immediately recognizes development costs that do not qualify for capitalization as expense in the period in which they are incurred (see Note 15.). In financial year 2017, these development costs amounted to of € 67.5 million (previous year: € 65.1 million).

Amortization on intangible assets mainly relates to regulatory drug approvals as well as trademarks and is recognized in the income statement primarily under cost of sales. In the reporting year, this related to an amount of € 86.5 million (previous year: € 83.5 million).

In financial year 2017, impairments on intangible assets were recognized in the total amount of € 55.7 million (previous year: € 61.8 million). As in the previous year, no valuation allowances on goodwill were recorded in the reporting year.

Details on changes in the scope of consolidation can be found in the Note on the scope of consolidation (see Note 5.).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Intangible assets (Continued)

Intangible assets developed as follows in the previous year:

2016 in € k	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
<b>Cost as of Jan. 1, 2016</b> . . . . .	<b>1,854,400</b>	<b>465,034</b>	<b>201,653</b>	<b>2,521,087</b>
Currency translation . . . . .	– 12,653	2,137	– 102	– 10,618
Changes in the scope of consolidation . . . . .	– 51	– 927	—	– 978
Additions . . . . .	484	—	81,037	81,521
Additions from business combinations according to IFRS 3 . . . . .	30,585	18,367	—	48,952
Disposals . . . . .	3,085	—	375	3,460
Reclassifications to non-current assets and disposal groups held for sale . . . . .	30,387	5,785	—	36,172
Reclassifications . . . . .	67,980	—	– 67,687	293
<b>Cost as of Dec. 31, 2016</b> . . . . .	<b>1,907,273</b>	<b>478,826</b>	<b>214,526</b>	<b>2,600,625</b>
<b>Accumulated depreciation as of Jan. 1, 2016</b> . . . . .	<b>739,059</b>	<b>73,422</b>	<b>59,586</b>	<b>872,067</b>
Currency translation . . . . .	8,855	1,510	987	11,352
Changes in the scope of consolidation . . . . .	– 51	—	—	– 51
Scheduled amortization . . . . .	83,506	—	—	83,506
Impairment losses . . . . .	54,677	—	7,130	61,807
Disposals . . . . .	2,241	—	359	2,600
Write-ups . . . . .	—	—	3	3
Reclassifications to non-current assets and disposal groups held for sale . . . . .	7,169	690	—	7,859
Reclassifications . . . . .	488	—	– 443	45
<b>Accumulated amortization as of Dec. 31, 2016</b> . . . . .	<b>877,124</b>	<b>74,242</b>	<b>66,898</b>	<b>1,018,264</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>1,030,149</b>	<b>404,584</b>	<b>147,628</b>	<b>1,582,361</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b> . . . . .	<b>1,115,341</b>	<b>391,612</b>	<b>142,067</b>	<b>1,649,020</b>

In 2016, the reclassifications of non-current assets and disposal groups held for sale relate to two subsidiaries in Asia.

The following amortization expense is expected for intangible assets in the next five years:

in € k	Expected amortization
2018 . . . . .	82,561
2019 . . . . .	82,572
2020 . . . . .	80,598
2021 . . . . .	83,583
2022 . . . . .	84,947

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Intangible assets (Continued)

The following table shows which cash-generating units the capitalized goodwill can be attributed to:

#### Residual carrying amount as of Dec. 31, 2017 in € million

Generics . . . . .	183.7
Branded Products . . . . .	212.8
<b>Total . . . . .</b>	<b><u>396.5</u></b>

In the previous year, the capitalized goodwill for cash-generating units was as follows:

#### Residual carrying amount as of Dec. 31, 2016 in € million

Generics . . . . .	188.7
Branded Products . . . . .	215.9
<b>Total . . . . .</b>	<b><u>404.6</u></b>

In comparison with the previous year, there were changes in the carrying amounts of goodwill which were for the most part exclusively currency related. The only addition resulted from the acquisition of the Serbian wholesaler Velexfarm in the amount of € 0.1 million which was mainly allocated to the Generics segment.

In the context of the regular impairment tests for capitalized goodwill of September 30, 2017, the discounted cash flow method was used to determine anticipated cash inflows, applying the following parameters defined for the individual cash-generating units according to segment:

<u>According to segment, defined as cash-generating unit</u>	<u>Growth rates of the forward-project phase 2017 in %</u>	<u>WACCs 2017 in %</u>
Generics . . . . .	1.3%	9.6%
Branded Products . . . . .	1.5%	10.0%

In the previous year, the applied parameters were as follows:

<u>According to segment, defined as cash-generating unit</u>	<u>Growth rates of the forward-project phase 2016 in %</u>	<u>WACCs 2016 in %</u>
Generics . . . . .	2.4%	10.3%
Branded Products . . . . .	2.7%	10.0%

The discounted cash flow method is used to determine the value in use of the cash-generating units, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. This detailed planning period reflects the assumptions for short and medium-term market developments. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of 50% of the expected long-term inflation rate is assumed. The detailed planning period for the determination of the value in use is based on assumptions in light of past experience, supplemented by current internal developments and verified through external market data and analyses. The most important assumptions include the development of future sales prices, amounts and costs, the influence of the regulatory market environment, investments, market shares, exchange rates and growth rates. Significant changes to the above-described assumptions would influence the determination of the value in use of the cash-generating units. The discount rates applied are determined on the basis of external factors derived from the market and adjusted for the respective predominant risks of the cash-generating units.

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. A sensitivity analysis was therefore carried out for the different cash-generating units with a 1.0 percentage points higher discount rate, a decrease in the growth rate of 0.5 percentage points and a decrease in EBIT of 10.0 percentage points. Using these assumptions, there was also no necessity for an impairment to any cash-generating unit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 25. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2017:

2017 in € k	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
<b>Cost as of Jan. 1, 2017</b> . . . . .	<b>250,048</b>	<b>222,875</b>	<b>108,726</b>	<b>33,227</b>	<b>614,876</b>
Currency translation . . . . .	– 526	– 3,840	– 1,197	289	– 5,274
Changes in the scope of consolidation . . . .	– 10,302	– 9,428	– 889	– 49	– 20,668
Additions . . . . .	2,430	7,858	7,064	38,477	55,829
Additions from business combinations according to IFRS 3 . . . . .	17	—	122	—	139
Disposals . . . . .	1,472	947	6,038	156	8,613
Reclassifications from non-current assets and disposal groups held for sale . . . . .	11,693	9,915	1,010	49	22,667
Reclassifications to non-current assets and disposal groups held for sale . . . . .	2,985	—	—	—	2,985
Transfers . . . . .	14,940	21,679	6,087	– 42,536	170
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>263,843</b>	<b>248,112</b>	<b>114,885</b>	<b>29,301</b>	<b>656,141</b>
<b>Accumulated depreciation as of Jan. 1, 2017</b> . . . . .	<b>87,185</b>	<b>131,524</b>	<b>73,452</b>	<b>—</b>	<b>292,161</b>
Currency translation . . . . .	842	– 1,512	– 301	—	– 971
Changes in the scope of consolidation . . . .	– 1,739	– 5,328	– 565	—	– 7,632
Amortization . . . . .	6,795	18,837	10,763	—	36,395
Impairments . . . . .	3,242	268	332	426	4,268
Disposals . . . . .	467	712	4,617	– 15	5,781
Write-ups . . . . .	—	—	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	1,527	4,857	559	—	6,943
Reclassifications to non-current assets and disposal groups held for sale . . . . .	2,179	—	—	—	2,179
Transfers . . . . .	246	249	– 296	—	199
<b>Accumulated amortization as of Dec. 31, 2017</b> . . . . .	<b>95,452</b>	<b>148,183</b>	<b>79,327</b>	<b>441</b>	<b>323,403</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>168,391</b>	<b>99,929</b>	<b>35,558</b>	<b>28,860</b>	<b>332,738</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>162,863</b>	<b>91,351</b>	<b>35,274</b>	<b>33,227</b>	<b>322,715</b>

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to STADA Vietnam J.V. which in the previous year was considered as IFRS 5 reporting.

Property, plant and equipment included assets from finance leases, primarily relating to cars and vehicles, in the amount of €4.4 million (previous year: €4.4 million), which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since been subjected to scheduled depreciation.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale within property, plant and equipment related to one property including building structures in Germany and a real-estate property in Bosnia-Herzegovina.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 25. Property, plant and equipment (Continued)

As in the previous year, no borrowing costs were capitalized for property, plant and equipment in financial year 2017.

Property, plant and equipment developed as follows in the previous year:

2016 in € k	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
<b>Cost as of Jan. 1, 2016</b> . . . . .	<b>263,806</b>	<b>225,444</b>	<b>102,389</b>	<b>27,780</b>	<b>619,419</b>
Currency translation . . . . .	1,193	3,555	2,235	– 11	6,972
Changes in the scope of consolidation . . . .	—	—	– 122	—	– 122
Additions . . . . .	2,242	7,956	8,035	31,894	50,127
Additions from business combinations according to IFRS 3 . . . . .	1,519	2,047	628	—	4,194
Disposals . . . . .	18,061	16,733	7,796	148	42,738
Reclassifications to non-current assets and disposal groups held for sale . . . . .	11,693	9,915	1,026	49	22,683
Transfers . . . . .	11,042	10,521	4,383	– 26,239	– 293
<b>Cost as of Dec. 31, 2016</b> . . . . .	<b>250,048</b>	<b>222,875</b>	<b>108,726</b>	<b>33,227</b>	<b>614,876</b>
<b>Accumulated depreciation as of Jan. 1, 2016</b> . . . . .	<b>95,410</b>	<b>132,349</b>	<b>70,043</b>	<b>—</b>	<b>297,802</b>
Currency translation . . . . .	806	3,274	669	—	4,749
Changes in the scope of consolidation . . . .	—	—	– 119	—	– 119
Scheduled depreciation . . . . .	6,796	16,574	10,304	—	33,674
Impairment losses . . . . .	36	97	90	—	223
Disposals . . . . .	14,335	15,911	6,925	—	37,171
Write-ups . . . . .	—	—	—	—	—
Reclassifications to non-current assets and disposal groups held for sale . . . . .	1,527	4,858	567	—	6,952
Transfers . . . . .	– 1	– 1	– 43	—	– 45
<b>Accumulated amortization as of Dec. 31, 2016</b> . . . . .	<b>87,185</b>	<b>131,524</b>	<b>73,452</b>	<b>—</b>	<b>292,161</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>162,863</b>	<b>91,351</b>	<b>35,274</b>	<b>33,227</b>	<b>322,715</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b> . . . . .	<b>168,396</b>	<b>93,095</b>	<b>32,346</b>	<b>27,780</b>	<b>321,617</b>

In 2016, the reclassifications of non-current assets and disposal groups held for sale related to two subsidiaries in Asia.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Financial assets

Financial assets developed as follows in financial year 2017:

2017 in € k	Shares in associates and other investments	Other financial assets	Total
<b>Cost as of Jan. 1, 2017</b> . . . . .	<b>20,243</b>	—	<b>20,243</b>
Currency translation . . . . .	385	—	385
Changes in the scope of consolidation . . . . .	– 407	—	– 407
Acquisitions . . . . .	275	—	275
Disposals . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	– 1,438	—	– 1,438
<b>Cost as of Dec. 31, 2017</b> . . . . .	<b>19,058</b>	—	<b>19,058</b>
<b>Accumulated impairments as of Jan. 1, 2017</b> . . . . .	<b>18,007</b>	—	<b>18,007</b>
Currency translation . . . . .	509	—	509
Changes in the scope of consolidation . . . . .	– 407	—	– 407
Impairment losses . . . . .	407	—	407
Disposals . . . . .	– 2	—	– 2
Write-ups . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	– 1,438	—	– 1,438
<b>Accumulated impairments as of Dec. 31, 2017</b> . . . . .	<b>17,080</b>	—	<b>17,080</b>
<b>Residual carrying amounts as of Dec. 31, 2017</b> . . . . .	<b>1,978</b>	—	<b>1,978</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>2,236</b>	—	<b>2,236</b>

Financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices. There is currently no intention to sell these financial assets. Impairment losses on financial assets recognized in the reporting year related to several immaterial items.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Financial assets (Continued)

Financial assets developed as follows in the previous year:

2016 in € k	Shares in associates and other investments	Other financial assets	Total
<b>Cost as of Jan. 1, 2016</b> . . . . .	<b>16,085</b>	—	<b>16,085</b>
Currency translation . . . . .	– 157	—	– 157
Changes in the scope of consolidation . . . . .	0	—	0
Additions . . . . .	4,869	—	4,869
Disposals . . . . .	554	—	554
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	—	—	—
<b>Cost as of Dec. 31, 2016</b> . . . . .	<b>20,243</b>	—	<b>20,243</b>
<b>Accumulated impairments as of Jan. 1, 2016</b> . . . . .	<b>14,746</b>	—	<b>14,746</b>
Currency translation . . . . .	– 183	—	– 183
Changes in the scope of consolidation . . . . .	—	—	—
Impairment losses . . . . .	3,450	—	3,450
Disposals . . . . .	6	—	6
Write-ups . . . . .	—	—	—
Reclassifications from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	—	—	—
<b>Accumulated impairments as of Dec. 31, 2016</b> . . . . .	<b>18,007</b>	—	<b>18,007</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>2,236</b>	—	<b>2,236</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b> . . . . .	<b>1,339</b>	—	<b>1,339</b>

### 27. Investments measured at equity

The disclosure relates to the accounting of shares in the associates BIOCEUTICALS Arzneimittel AG, as well as Pharm Ortho Pedic SAS, AELIA SAS and Dialogfarma LLC using the equity method.

For the former Vietnamese subsidiary STADA Vietnam J.V., a contract was signed in the fourth quarter of financial year 2017 for the sale of the shares held by in the company as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now also be consolidated as an associate in the Consolidated Financial Statements until the time of the sale.

Investments measured at equity developed as follows in financial year 2017 compared with the previous year:

in € k	2017	2016
<b>As of Jan. 1</b> . . . . .	<b>13,872</b>	<b>13,168</b>
Status change of STADA Vietnam J.V. . . . .	25,352	—
Result from associates . . . . .	2,304	704
Elimination of dividend income . . . . .	—	—
Currency translation differences . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b>41,528</b>	<b>13,872</b>

The increase in investments accounted for at equity resulted in financial year 2017 from the inclusion of the company STADA Vietnam J.V. as an associate. The equity carrying amount corresponds to the contractually agreed selling price for the sale on December 31, 2019 of the shares held by STADA under consideration of a relevant discounting effect. Changes in the equity carrying amount arise for this company exclusively from discounting effects, eventual dividend distributions and from currency translation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 28. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Trade accounts receivable from third parties . . . . .	665,191	589,952
Trade accounts receivable from non-consolidated companies . . . . .	1,078	6,923
Valuation allowances vis-à-vis third parties . . . . .	– 145,828	– 107,804
<b>Total . . . . .</b>	<b><u>520,441</u></b>	<b><u>489,071</u></b>

As of December 31, 2017, there are trade accounts receivable due after one year in the amount of € 0.2 million (previous year: € 3.3 million).

Collateral exists for a portion of trade accounts receivable whose value was not impaired in the form of bank or corporate guarantees as well as pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

The following non-impaired trade accounts receivable were past due at the reporting date:

in € k	Carrying amount	thereof: neither impaired nor past due as at the reporting date	thereof: not impaired as at the reporting date and overdue in the following time range			
			up to 30 days	between 31 and 90 days	between 91 and 180 days	more than 180 days
Dec. 31, 2017 . . . . .	520,441	473,215	27,404	12,863	3,693	3,266
Dec. 31, 2016 . . . . .	489,071	415,318	17,453	32,191	18,058	6,051

There were no recognizable indications as of the reporting date that the debtors would not meet their payment obligations. Therefore, the trade accounts receivable that are not impaired and not past due are considered to be unconditionally recoverable. There are also no indications of impairment for the overdue receivables that have not been impaired.

Overall, valuation allowances on trade accounts receivable developed as follows:

in € k	2017	2016
<b>As of Jan. 1 . . . . .</b>	<b><u>107,804</u></b>	<b><u>105,061</u></b>
Added . . . . .	44,332	8,564
Utilized . . . . .	3,154	3,248
Reversed . . . . .	5,340	2,304
Additions from business combinations in accordance with IFRS 3 . . . . .	74	—
Changes in the scope of consolidation and reclassifications in accordance with IFRS 5 . . . . .	4	– 33
Currency translation differences . . . . .	2,108	– 236
<b>As of Dec. 31 . . . . .</b>	<b><u>145,828</u></b>	<b><u>107,804</u></b>

### 29. Other financial assets

Other financial assets are composed as follows:

in € k	Dec. 31, 2017		Dec. 31, 2016	
	Total	thereof: current	Total	thereof: current
Loan receivables . . . . .	371	20	234	—
Outstanding purchase price receivables . . . . .	—	—	1,070	765
Derivative financial assets . . . . .	678	678	9,914	9,914
Other financial assets . . . . .	9,847	9,111	33,112	29,201
<b>Total . . . . .</b>	<b><u>10,896</u></b>	<b><u>9,809</u></b>	<b><u>44,330</u></b>	<b><u>39,880</u></b>

There were no outstanding purchase price receivables in financial year 2017. The outstanding partial amounts of the previous year from the sale of a product portfolio in Italy were collected in the reporting year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 29. Other financial assets (Continued)

The derivative financial assets include the positive market values of currency forwards (see Note 45.1.).

The remaining financial assets include receivables from the factoring business in the amount of € 7.8 million and also comprise many insignificant individual items in the Group companies.

As of December 31, 2017, other financial assets included impairments in the amount of € 11.4 million (previous year: € 11.4 million). There were no outstanding amounts for non-impaired other financial assets as in the previous year.

### 30. Other assets

Other assets are composed as follows:

in € k	Dec. 31, 2017		Dec. 31, 2016	
	Total	thereof: current	Total	thereof: current
Other receivables due from the tax authorities . . . . .	16,307	16,280	12,495	12,253
Prepaid expenses/deferred charges . . . . .	14,357	13,858	11,982	10,780
Assets from overfunded pension plans . . . . .	16	—	18	—
Other assets . . . . .	5,973	5,185	7,290	5,657
<b>Total . . . . .</b>	<b>36,653</b>	<b>35,323</b>	<b>31,785</b>	<b>28,690</b>

Remaining assets comprise many insignificant individual items in the Group companies.

There are no impairments for the remaining assets.

### 31. Inventories

Inventories can be subdivided as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Materials and supplies . . . . .	91,638	93,156
Work in progress . . . . .	26,662	20,686
Finished goods and merchandise . . . . .	372,075	364,483
Advance payments to suppliers . . . . .	8,637	6,579
<b>Total . . . . .</b>	<b>499,012</b>	<b>484,904</b>

In financial year 2017, impairments netted with reversals were made on the net realizable value of inventories in the amount of € 43.2 million (previous year: € 28.2 million), which were already deducted from the amounts shown above through profit and loss. In financial year 2017, reversals here amounted to € 7.2 million (previous year: € 7.7 million).

### 32. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits as well as current and highly liquid financial investments with a maximum term of 90 days from the purchase date. In certain countries, specific transactions are subjected to special monitoring in the context of the requirements of the respective national bank or foreign exchange acts in force. Restrictions on disposal for cash and cash equivalents amount to € 2.7 million (previous year: € 2.3 million) and, as in the previous year, exclusively relate to cash and cash equivalents in China.

The decrease in cash and cash equivalents from € 352.6 million as of December 31, 2016 to € 243.2 million as of December 31, 2017 resulted from the effects described as part of the explanations of the consolidated cash flow statement. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 33. Non-current assets and disposal groups held for sale as well as associated liabilities

As of December 31, 2017, in the STADA Group, an asset held for sale in the amount of € 1.8 million presented in a separate line item in the balance sheet. This includes, among other things, a building from a German subsidiary that is held for sale as well as an intangible asset from an Italian subsidiary that is held for sale.

In the previous year as part of a disposal group of assets held for sale in the amount of € 83.0 million or liabilities in the amount of € 14.6 million from the two subsidiaries STADA Vietnam J.V., Ho Chi Minh City, Vietnam and STADA Import/Export International Ltd., Hong Kong, China were presented in a separate line item in the balance sheet because at that point in time a disposal in the near term was seen as highly probable. As of December 31, 2017 there was no longer, in relation to these two companies, any recognition of non-current assets and disposal groups held for sale as well as liabilities in connection with the assets.

This resulted on the one hand in the sale in the first quarter of 2017 of the subsidiary STADA Import/Export International Ltd. Here there was a gain from the deconsolidation of this company in the amount of € 0.2 million, which is recognized in income from the disposal of non-current assets within other income.

On the other hand, with regard to the subsidiary STADA Vietnam J.V., a contract was signed for the sale of the shares held in the company by STADA as of December 31, 2019. For STADA, this was associated with the loss of control in this company. The company will now be consolidated as an associate in the Consolidated Financial Statements until the time of the sale. In connection with the loss of control in this company, there was a total loss in the amount of € 5.5 million which is recognized in losses from the disposal of non-current assets within other expenses.

### 34. Equity

Group equity amounted to € 1,006.4 million as of the balance sheet date (previous year: € 1,047.1 million). This corresponds to an equity ratio of 31.4% (previous year: 30.4%).

#### 34.1. Share capital

As of December 31, 2017, share capital amounted to € 162,090,344.00 (December 31, 2016: € 162,090,344.00) and was divided into 62,342,440 registered shares (December 31, 2016: 62,342,440), each with an arithmetical share of share capital of € 2.60 per share, and is fully paid. Each share grants one vote in the General Meeting.

As of December 31, 2017, Authorized Share Capital and Conditional Capital were comprised as follows:

	Amount in €	Shares	Purpose
Authorized Capital . . . . .	77,134,304.00	29,667,040	Increase of share capital (until June 4, 2018)
Conditional Capital 2013 . .	69,188,340.00	26,610,900	Settlement of options and/or conversion rights (until June 4, 2018) in connection with issued bonds with warrants and/or convertible bonds, participation rights and/or participating bonds in the total nominal amount of up to €1.0 billion, or in the scope of a guarantee assumed for bonds with warrants and/or convertible bonds, participation rights and/or participating bonds issued by subordinate Group companies

#### 34.2. Capital reserve

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in equity and particularly include the capital reserve of STADA Arzneimittel AG. Differences from the capital reserve determined according to the provisions of German commercial law primarily result from the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Equity (Continued)

recognition at their market value of the shares of STADA Arzneimittel AG newly issued in 2003 as well as the associated treatment of issuing costs, which were deducted from the capital reserve.

Changes in the capital reserve were solely the result of the change in treasury shares in financial year 2017, as was the case in the previous year.

#### 34.3. Retained earnings including net income

Retained earnings including net income comprise net income for the financial year as well as earnings generated in previous periods, provided these were not distributed, including amounts transferred to retained earnings. In addition, re-valuations of net debt from defined benefit plans that were recognized through other comprehensive income are reported under this item, taking deferred taxes into account.

In the context of measuring the defined benefit obligations as of December 31, 2017, net income in the amount of € 3.5 million after deferred taxes—not considering amounts attributable to non-controlling interests—resulted from the remeasurement. It is mainly based on the increase in the discount rate for various defined benefit plans in the STADA Group underlying the measurement of December 31, 2017 in comparison with December 31, 2016. In addition, this position also includes currency translation differences related to the revaluation of net debt recognized in equity from performance-oriented pension plans as well as the deferred taxes they incur which, in financial year 2017, amounted to income recognized in equity of € 0.1 million.

#### 34.4. Other reserves

Other reserves include results recognized directly in equity. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are reported in the statement of changes in equity under the currency translation reserve. The provision for cash flow hedges include the measurement results from cash flow hedges from the effective portion of the hedge, allowing for respective deferred taxes.

The reduction of other reserves compared to the previous year primarily resulted from the depreciation of the Russian ruble and the British pound sterling since December 31, 2016, which has led to expenses from the currency translation of the companies that are accounted for in the Russian ruble and the pound sterling.

#### 34.5. Treasury shares

As of the balance sheet date, the Company held 84,311 treasury shares (previous year: 85,043), each with an arithmetical par value of € 2.60, which is equivalent to 0.14% (previous year: 0.14%) of the share capital. In financial year 2017, 732 treasury shares were sold at an average price of € 51.72 per share within the scope of an employee stock option program.

#### 34.6. Shares relating to non-controlling shareholders

Shares relating to non-controlling interests as of December 31, 2017 related to the minority interests of other shareholders in the subsidiaries Hemofarm Banja Luka, Hemomont, Pymepharco, STADA Pharmaceuticals (Beijing) and Well Light Investment Services. As a result of the deconsolidation of the company STADA Import/Export International Ltd. and the deconsolidation of STADA Vietnam J.V. as a subsidiary in financial year 2017, there are no longer any minority interests of other shareholders included in these items as of December 31, 2017. The minority interests in STADA Thailand are also no longer included as of December 31, 2017 due to the increase in the shareholding to 100% of the shares in the second quarter of 2017.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions

Other non-current provisions made by STADA as of the balance sheet date in Germany and outside Germany include pension provisions and other non-current provisions in the form of anniversary provisions and provisions for working time accounts as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Germany . . . . .	15,305	13,157
Outside Germany . . . . .	19,988	22,840
<b>Total . . . . .</b>	<b><u>35,293</u></b>	<b><u>35,997</u></b>

In Germany, STADA has plan assets in the form of reinsurance policies, which are used to serve the pension entitlements of a small number of former employees. In addition, there are plan assets for a pension obligation which was outsourced to a pension fund. All further pension entitlements are financed internally in the scope of pension provisions. In addition, there are plan assets in a few foreign subsidiaries in the form of, among other things, insurances, government bonds and securities funds.

In financial year 2017, the plan assets of one international subsidiary exceeded their pension obligations, with the result that these assets in excess were reported under other assets as assets from overfunded pension plans in the amount of € 0.02 million (previous year: € 0.02 million).

Plan assets were divided according to investment type as follows:

Share of plan assets in € k	2017	2016
Cash and cash equivalents . . . . .	1,006	1,245
Equity securities . . . . .	6,976	6,045
Debt securities . . . . .	19,696	18,983
Real estate . . . . .	1,945	1,813
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	14,013	13,075
Insurance policies . . . . .	75,297	77,009
Other . . . . .	—	459
<b>Total . . . . .</b>	<b><u>118,933</u></b>	<b><u>118,629</u></b>

The plan assets, which have a quoted market price, consist of the following:

Share of plan assets (quoted market price) in € k	2017	2016
Cash and cash equivalents . . . . .	1,006	1,245
Equity securities . . . . .	6,976	6,045
Debt securities . . . . .	19,696	18,983
Real estate . . . . .	1,945	1,813
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	14,013	13,075
Insurance policies . . . . .	—	—
Other . . . . .	—	459
<b>Total . . . . .</b>	<b><u>43,636</u></b>	<b><u>41,620</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

For German Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € k	2017	2016
<b>As of Jan. 1</b> . . . . .	<b>57,598</b>	<b>48,748</b>
Current service cost . . . . .	43	36
Past service cost . . . . .	—	—
Plan settlements . . . . .	—	—
Interest cost . . . . .	966	1,163
Benefits paid from plan assets . . . . .	– 1,210	– 114
Benefits paid by employer . . . . .	– 454	– 471
Revaluations:		
• Gains (–) / losses (+) due to changed demographic assumptions . . . . .	—	—
• Gains (–) / losses (+) due to changed financial assumptions . . . . .	– 2,057	7,054
• Gains (–) / losses (+) due to experience-based changes . . . . .	– 609	1,182
<b>As of Dec. 31</b> . . . . .	<b>54,277</b>	<b>57,598</b>

For international Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € k	2017	2016
<b>As of Jan. 1</b> . . . . .	<b>93,342</b>	<b>81,583</b>
Current service cost . . . . .	2,846	2,719
Past service cost . . . . .	1,719	752
Plan settlements . . . . .	– 47	– 472
Interest cost . . . . .	1,911	2,256
Benefits paid from plan assets . . . . .	– 1,100	– 1,333
Benefits paid by employer . . . . .	– 748	– 279
Employee contributions . . . . .	538	492
Insurance premiums for death and disability benefits . . . . .	– 251	– 217
Business combinations . . . . .	—	—
Disposals . . . . .	– 323	– 113
Reclassifications . . . . .	513	– 528
Revaluations:		
• Gains (–) / losses (+) due to changed demographic assumptions . . . . .	302	– 1,124
• Gains (–) / losses (+) due to changed financial assumptions . . . . .	– 2,500	12,688
• Gains (–) / losses (+) due to experience-based changes . . . . .	– 340	205
Currency changes . . . . .	– 2,743	– 3,191
Other . . . . .	– 105	– 96
<b>As of Dec. 31</b> . . . . .	<b>93,014</b>	<b>93,342</b>

The past service cost is accounted for in the reporting year for the most part by a special event in the United Kingdom with the following background: At the company Thornton & Ross Ltd., the performance-oriented pension plan was concluded as of June 30, 2002 and frozen in such a way that the funds paid into it up to that point would no longer grow with the salary, but in accordance with the statutory entitlement adjustment requirement. A review in 2017 showed that the plan participants could interpret the closing regulation in a way that would mean that the connection of the payments to the salary development was still in place. On the basis of this interpretation of the regulation, the obligation was increased by € 1.8 million as past service cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

The fair value of plan assets underlying the pension obligations developed as follows for German group companies:

Fair value of plan assets in € k	2017	2016
<b>As of Jan. 1</b> . . . . .	<b>44,441</b>	<b>37,314</b>
Interest income . . . . .	739	766
Employer contributions . . . . .	264	– 29
Employee contributions . . . . .	—	—
Pension payments . . . . .	– 1,210	– 114
Actuarial gains (+) / losses (–) on plan assets (not included in interest result) . . . .	– 1,714	6,504
Other . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b>42,520</b>	<b>44,441</b>

The fair value of plan assets underlying the pension obligations developed as follows for international Group companies:

Fair value of plan assets in € k	2017	2016
<b>As of Jan. 1</b> . . . . .	<b>74,188</b>	<b>67,645</b>
Interest income . . . . .	1,417	1,816
Employer contributions . . . . .	2,987	2,195
Employee contributions . . . . .	538	492
Pension payments . . . . .	– 1,100	– 1,333
Insurance premiums for death and disability benefits . . . . .	– 251	– 217
Business combinations . . . . .	—	—
Disposals . . . . .	—	—
Reclassifications . . . . .	—	—
Actuarial gains (+) / losses (–) on plan assets (not included in interest result) . . .	646	7,228
Currency changes . . . . .	– 1,891	– 3,456
Other . . . . .	– 121	– 182
<b>As of Dec. 31</b> . . . . .	<b>76,413</b>	<b>74,188</b>

The amount of the pension provisions recognized as of the reporting date for companies with plan assets was therefore as follows:

in € k	2017	2016
Projected benefit obligations for pension commitments . . . . .	135,357	137,452
Fair value of plan assets . . . . .	118,933	118,629
<b>Net obligation</b> . . . . .	<b>16,424</b>	<b>18,823</b>
Effect from the limit on a defined benefit asset according to IFRIC 14 . . . . .	—	—
<b>Net liability recognized in balance sheet</b> . . . . .	<b>16,424</b>	<b>18,823</b>

The amount of the pension provisions recognized as of the reporting date for companies without plan assets was therefore as follows:

in € k	2017	2016
Projected benefit obligations for pension commitments . . . . .	11,934	13,488
<b>Net liability recognized in balance sheet</b> . . . . .	<b>11,934</b>	<b>13,488</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

Expenses for defined benefit plans amounted to net expenses in the total amount of € 5.3 million in financial year 2017 (previous year: € 4.0 million) and consisted of the following components:

in € k	2017	2016
Current service cost . . . . .	2,889	2,755
Past service cost . . . . .	1,719	752
Plan settlements . . . . .	– 47	– 472
Net interest expense:		
• Interest expense (DBO) . . . . .	2,877	3,419
• Interest income (plan assets) . . . . .	– 2,156	– 2,582
• Interest income from reimbursement . . . . .	—	—
• Interest expense (+) / interest income (–) from the limit on an asset . . . . .	—	—
Administration costs . . . . .	64	153
Other . . . . .	—	—
<b>Total</b> . . . . .	<b>5,346</b>	<b>4,025</b>

Gains from plan assets amounted to € – 1.0 million in financial year 2017 (previous year: € + 7.3 million) for German Group companies and € 2.1 million for international Group companies (previous year: € 9.0 million).

The reduction in income of plan assets for German Group companies is mainly due to an increase of the plan assets of an approval to the level of the gross obligation as a result of existing reinsurance; this decreased as a consequence of the increased actuarial interest rate in financial year 2017. The reduction of the plan assets outside Germany is mainly attributable to a worse performance of the plan assets in the United Kingdom and a decrease in the income of the plan assets in the Netherlands. In the Netherlands, the amount of the plan assets is calculated on the basis of an actuarial measurement and thus depends decisively on the development of the actuarial interest rate. In financial year 2017, the actuarial interest rate increased; this led to a reduction of the plan assets and the income.

The following actuarial parameters were used as a basis for measuring the German pension obligations and pension costs:

Parameters for pension obligations for German Group companies (weighted)	Dec. 31, 2017	Dec. 31, 2016
Discount rate . . . . .	1.9%	1.7%
Salary trend . . . . .	3.0%	3.0%
Benefits trend . . . . .	1.4%	1.4%
Inflation . . . . .	1.8%	1.8%

The following actuarial parameters were used as a basis for measuring the international pension obligations and pension costs:

Parameters for pension obligations for international Group companies (weighted)	Dec. 31, 2017	Dec. 31, 2016
Discount rate . . . . .	2.1%	2.1%
Salary trend . . . . .	2.1%	2.7%
Benefits trend . . . . .	0.9%	0.9%
Inflation . . . . .	1.8%	2.0%

A sensitivity analysis was carried out in which only one assumption was changed in each case and all other assumptions were not changed. In the following, the change in the defined benefit obligation of the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

pension obligations (DBO) for German Group companies is presented according to a change in the discount rate, salary trends and pension trends:

<b>Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2017 (€54,277 k) according to changed assumption in € k</b>	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>
Discount rate +0.5% . . . . .	– 4,681	– 5,376
Discount rate – 0.5% . . . . .	5,376	6,019
Salary trend +0.5% . . . . .	8	16
Salary trend – 0.5% . . . . .	– 6	– 11
Pension trend +0.5% . . . . .	5,294	6,111
Pension trend – 0.5% . . . . .	– 4,613	– 5,284

The salary trend is largely insignificant after the last active plan participant in a pension plan receives a pension since 2017.

In the following, the change in the defined benefit obligation of the pension obligations (DBO) for international Group companies is presented according to a change in the discount rate, salary trends and pension trends:

<b>Change in the defined benefit obligation for pension obligations (DBO) as of December 31, 2017 (€93,014 k) according to changed assumption in € k</b>	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>
Discount rate +0.5% . . . . .	– 7,234	– 7,618
Discount rate – 0.5% . . . . .	8,026	8,575
Salary trend +0.5% . . . . .	731	867
Salary trend – 0.5% . . . . .	– 915	– 814
Pension trend +0.5% . . . . .	4,708	4,850
Pension trend – 0.5% . . . . .	– 1,804	– 1,256

As of December 31, 2017, the weighted duration of the pension obligations amounted to 18 years (previous year: 20 years) for German Group companies and 17 years (previous year: 17 years) for international Group companies.

In the coming financial years, the following payments from the Company and from plan assets overall are expected for defined benefit plans:

<b>Expected pension payments according to maturity dates in € k</b>	<b>Germany</b>	<b>Outside Germany</b>
Less than 1 year . . . . .	1,680	4,380
Between 1 and 2 years . . . . .	1,962	2,987
Between 2 and 3 years . . . . .	1,958	2,842
Between 3 and 4 years . . . . .	1,968	2,968
Between 4 and 5 years . . . . .	1,963	3,326
Between 5 and 10 years . . . . .	9,834	19,459

For the coming financial year, employer contributions, consisting of direct pension payments and contributions to the plan, are expected in the amount of € 0.8 million for German Group companies and € 3.6 million for international Group companies.

The regulations of IAS 19 require a presentation of the benefit plans that generate obligations for the company. For the STADA Group, pension plans in Germany, the Netherlands, the United Kingdom and Switzerland account for the largest share of total obligations with 83%. Accordingly, the following details focus more on these countries.

In Germany, the legal framework for company pension plans is provided by the Company Pensions Act (Betriebsrentengesetz—BetrAVG) in which minimum legal requirements are attached to company pension plans. Regulation and legal precedents within labor law must also be followed. The retirement benefit plans are predominantly based upon the final salary and are concluded with newly hired employees. Plan participants are primarily beneficiaries. Benefits are paid out in the form of a pension. In the calculation of



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

the amount of the pension obligations, the Heubeck 2005G mortality tables were used as a basis for consideration of mortality and fluctuation.

In Germany, STADA has plan assets in the form of reinsurance policies and in the form of assets in a pension fund. As of December 31, 2017, plan assets amounted to € 42.5 million and were composed of three different plans. There were no plan assets for two additional plans.

In the context of risk assessment, the life expectancy of plan participants plays a smaller role in Germany, as the material obligation regarding its amount and including associated risks was outsourced externally. Furthermore, there is also the common risk of the interest rate development and the risk that the real future salary development exceeds the salary development derived from assumptions taken in the evaluation.

The pension commitment for the former Chairman of the Executive Board Hartmut Retzlaff was transferred to a pension fund in full in financial year 2014. Despite the transfer, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as a defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly in the balance sheet. The existing plan assets lead to a provision of zero due to offsetting that must be carried out at the time of the plan amendment for this benefit plan. Because the pension commitment is fully funded, no further provisions are expected in the future.

Pension legislation in the Netherlands requires pension plans to be backed by assets to such an extent that the vested benefits are completely covered. The underlying average career pension plan in the Netherlands is, in part, financed via insurance contributions that are designed to fulfill the aforementioned requirement. The plan is open for new employees and contains benefits that fall due in case of retirement or early death.

In the Netherlands, the pension plan is, in part, financed via contributions to an insurance company. Assets received by the insurance company thereby cannot be allocated to specific participating companies. The assets cannot be determined by a quoted active market price, instead they are determined according to the amount of vested benefit obligations. As of December 31, 2017, plan assets amounted to € 26.3 million.

The Dutch company pays annual pension contributions. In the process, life expectancy risk and interest rate risk are transferred to the insurance company. The insurance company also assumes the risk of investing the contributions. These risks are assumed by the insurance company for the entire term of the contract. If, for example, the discount rate used by the insurance company in its calculations should change, a new contract could be concluded that applies the new discount rate to underlie only future contributions received.

Not all risks have been transferred to the insurance company. Dutch law specifies that former employees have the right to transfer their pension entitlements to the pension plan of a new employer. If the evaluation assumptions applied in the transfer differ from the originally applied assumptions of the insurance, the company could be required to pay an additional contribution payment. In the calculation of the amount of the pension obligations and plan assets, the assumptions of the AG forecast table 2016 were used as a basis for consideration of the mortality. Company-specific age-related annual fluctuation rates serve as a fluctuation assumption.

In the United Kingdom, STADA provides its employees with defined benefit plans that are concluded for new hires. The employees can also no longer earn an additional increase in their entitlements. The pension plan plans are subject to the UK Trust Law and the UK Pension Regulator. The pension plans are monitored by trustees who determine the investment strategy. The trustees are also responsible for fulfilling the legally required pension plan funding and thereby ensuring sufficient assets to cover the technical provisions of the plan. The pension plan is subject to risks relating to the discount rate and participant life expectancy as well as inflation risk, if these values develop contrary to expectations. If the discount rate is low, the level of funding decreases, which may require the payment of additional contributions. There is a financing risk in plan assets in that plan assets could develop contrary to expectations and plan assets could therefore only compensate in part for changes in the obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

In the long-term, 40% of the plan assets in the United Kingdom should be invested in so-called matching assets, which guarantee the fulfillment of future pension obligations under changing market conditions. In accordance with target allocation, the remaining 60% should be invested in so-called growth assets, for which an above-average return is expected in comparison with the obligation development. As of December 31, 2017, plan assets amounted to € 23.5 million. All assets have quoted market prices on an active market. In the calculation of the amount of the pension obligations, the mortality tables of the S2 Series (S2PA) were used as a basis for consideration of the mortality also including the projection table CMI 2015 as well as the long-term trend toward improved mortality of 1.25%. Fluctuation assumptions are no longer relevant for the pension plan.

In Switzerland, every employer must offer its employees a pension plan according to federal pension law (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge—BVG). Employees whose salary exceeds the entry limit are obliged to be insured—this is re-determined periodically. The BVG requires a minimum plan (the “BVG minimum”) that must always be covered. STADA's Swiss benefit plan includes benefits in case of death, disability, departure and upon reaching retirement age. The annual pension is calculated based on a savings account and conversion rate determined according to the age of retirement. Plan participants can opt for a capital option. In the calculation of the amount of the pension obligations, the BVG 2015 GT mortality tables were used as a basis for consideration of mortality and fluctuation.

Various Group companies additionally grant their employees defined contribution plans. Here, Group companies pay defined contributions to independent institutions due to legal or contractual requirements or on a voluntary basis; liabilities beyond this do not exist. The contributions for defined contribution plans, which are reported as expense in the respective period in the relevant functional areas, amounted to € 26.8 million in financial year 2017 (previous year: € 23.2 million).

The other non-current provisions developed as follows:

<u>Other non-current provisions in € k</u>	<u>2017</u>	<u>2016</u>
<b>As of Jan. 1</b> . . . . .	<b><u>3,668</u></b>	<b><u>3,434</u></b>
Current service cost . . . . .	385	295
Past service cost . . . . .	3,361	– 203
Plan settlements . . . . .	—	—
Interest cost . . . . .	192	223
Benefits paid . . . . .	– 460	– 330
Business combinations . . . . .	7	—
Revaluations		
• gains (–) / losses (+) due to changed demographic assumptions . . . . .	– 40	22
• gains (–) / losses (+) due to changed financial assumptions . . . . .	– 406	472
• gains (–) / losses (+) due to experience-based changes . . . . .	158	– 230
Currency changes . . . . .	54	– 15
Reclassifications . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b><u>6,919</u></b>	<b><u>3,668</u></b>

In Germany, anniversary obligations were accounted for the first time in 2017. This resulted in a one-time past service cost in the amount of € 3.3 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 36. Financial liabilities

Financial liabilities are comprised as follows in accordance with their remaining terms as of the balance sheet date:

in € k	Liabilities promissory note loans		Liabilities to banks		Liabilities from bonds		Total	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Remaining term up to 1 year . .	525,112	43,993	84,007	90,351	647,986	—	1,257,105	134,343
Remaining terms over 1 year								
up to 3 years . . . . .	—	294,487	816	25,575	—	348,912	816	668,974
Remaining terms over 3 years								
up to 5 years . . . . .	—	307,665	—	542	—	—	—	308,207
Remaining terms over 5 years .	—	61,314	—	—	—	297,918	—	359,232
<b>Financial liabilities . . . . .</b>	<b>525,112</b>	<b>707,459</b>	<b>84,823</b>	<b>116,468</b>	<b>647,986</b>	<b>646,830</b>	<b>1,257,921</b>	<b>1,470,757</b>

The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. The increase in current financial liabilities as well as the decrease in non-current financial liabilities was based on the reclassification of the promissory note loans, bonds and financial liabilities due to banks currently in place at STADA Arzneimittel AG. Due to STADA's financing agreements, the Company anticipates that repayment could take place in the short term which is why a relevant reclassification of the financial liabilities in the balance sheet from non-current to current liabilities was undertaken. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming.

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2017, from interest payments and repayment of financial liabilities for the coming years can be seen in the following table:

in € k	2018			2019			> 2020		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . . .	13,788	1,092	1,259,973	147	—	260	49	—	448

The following projection of cash flows from financial liabilities was generated in the previous year:

in € k	2017			2018			> 2019		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . . .	22,471	2,396	125,066	20,347	2,322	383,350	35,734	2,508	966,789

For the financial liabilities existing as of the reporting date, a repayment in accordance with the maturity disclosed in the balance sheet was generally assumed. The variable interest payments from the promissory note loans were determined based on the interest rate last fixed before December 31, 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 36. Financial liabilities (Continued)

For the financial liabilities whose cash-effective change are included in the cash flow from financing activities resulted in the reporting year in the following reconciliation:

2017 in € k	Financial liabilities
<b>As of Jan. 1</b> . . . . .	<b>1,470,757</b>
Cash inflows from additions . . . . .	32,296
Cash outflows from repayments . . . . .	250,292
Changes in the scope of consolidation . . . . .	1,867
Effects from currency translation . . . . .	1,485
Other non-cash effective changes . . . . .	1,808
<b>As of Dec. 31</b> . . . . .	<b>1,257,921</b>

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the Notes on the capital management of liquidity risk (see Note 46.5.).

### 37. Trade accounts payable

Trade accounts payable are composed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Trade accounts payable to third parties . . . . .	198,543	244,138
Trade accounts payable to non-consolidated Group companies . . . . .	3,849	3,784
Advances received on orders from third parties . . . . .	564	634
Liabilities from outstanding accounts . . . . .	137,686	88,288
<b>Total</b> . . . . .	<b>340,642</b>	<b>336,844</b>

Of the total amount of trade accounts payable, € 0.0 million (previous year: € 0.0 million) are due after one year.

For the most part, the changes were based on trade accounts payable on offsetting reporting date effects within the individual Group companies.

### 38. Other financial liabilities

Other financial liabilities are broken down as follows:

in € k	Dec. 31, 2017		Dec. 31, 2016	
	Total	thereof: current	Total	thereof: current
Loan liabilities . . . . .	54,821	54,821	15,413	15,413
Outstanding purchase price liabilities . . . . .	1,880	415	5,609	3,616
Finance lease liabilities . . . . .	3,419	1,337	3,316	1,489
Liabilities from derivative financial instruments . . . . .	1,250	1,250	11,869	11,869
Other financial liabilities . . . . .	168,770	168,285	181,740	181,644
<b>Total</b> . . . . .	<b>230,140</b>	<b>226,108</b>	<b>217,947</b>	<b>214,031</b>

The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. Loans payable as of December 31, 2017 includes a loan granted from Nidda Healthcare GmbH in the amount of € 40.0 million due to the early repayment of STADA financing.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38. Other financial liabilities (Continued)

As of December 31, 2017, the outstanding purchase price liabilities were based on product acquisitions in the United Kingdom. The outstanding purchase price payment in place as of December 31, 2016 for the acquisition of the Argentinian Laboratorio Vannier was paid in the reporting year.

Finance lease liabilities, such as for vehicles and passenger vehicles, amount to € 3.4 million (previous year: € 3.3 million). Considering interest in the amount of € 0.7 million (previous year: € 0.6 million), lease installments payable in subsequent years total € 4.1 million (previous year: € 3.9 million).

The leasing liabilities are due as follows:

in € k	Lease installments		Interest		Finance lease liabilities	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Remaining term up to 1 year . . . . .	1,706	1,807	368	318	1,338	1,489
Remaining terms over 1 year up to 3 years . . . . .	2,140	1,679	318	271	1,822	1,408
Remaining terms over 3 years up to 5 years . . . . .	274	402	15	17	259	385
Remaining terms over 5 years . . . . .	—	34	—	—	—	34
<b>Total . . . . .</b>	<b><u>4,120</u></b>	<b><u>3,922</u></b>	<b><u>701</u></b>	<b><u>606</u></b>	<b><u>3,419</u></b>	<b><u>3,316</u></b>

For the liabilities from financial leasing whose cash-effective changes are included in the cash flow from financing activities resulted in the reporting year in the following reconciliation:

2017 in € k	Liabilities financial leasing
<b>As of Jan. 1 . . . . .</b>	<b><u>3,316</u></b>
Payments . . . . .	2,212
Additions . . . . .	2,293
Effects from currency translation . . . . .	22
Other non-cash effective changes . . . . .	—
<b>As of Dec. 31 . . . . .</b>	<b><u>3,419</u></b>

In addition, the negative market values of derivatives measured at fair value through profit or loss were reported in liabilities from derivative financial instruments. In financial year 2017, this related to currency forwards (see Note 45.1.). Within the scope of the maturity date analysis, the following contractually agreed remaining terms result for these derivative financial liabilities:

in € k	Derivative financial liabilities	
	Dec. 31, 2017	Dec. 31, 2016
Remaining term up to 1 year . . . . .	1,250	11,869
Remaining terms over 1 year up to 3 years . . . . .	—	—
Remaining terms over 3 years up to 5 years . . . . .	—	—
Remaining terms over 5 years . . . . .	—	—
<b>Total . . . . .</b>	<b><u>1,250</u></b>	<b><u>11,869</u></b>

Remaining financial liabilities included liabilities from discount agreements of German STADA companies in the amount of € 140.8 million (previous year: € 166.3 million) and also comprise many insignificant individual items in the Group companies. The remaining financial liabilities fall due in the amount of € 168.3 million (previous year: € 181.6 million) within one year, in the amount of € 0.5 million after one year and up to five years (previous year: € 0.1 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38. Other financial liabilities (Continued)

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2017, from interest payments and repayment of finance lease liabilities and for the liabilities from derivative financial instruments for the coming years can be seen in the following table:

in € k	2018			2019			2020–2022		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	368	—	1,338	226	—	1,027	107	—	1,054
Cash flows from derivatives	—	—	—	—	—	—	—	—	—

The following projection of cash flows from finance lease liabilities as well as derivatives was generated in the previous year:

in € k	2017			2018			2019–2021		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	318	—	1,489	179	—	862	109	—	931
Cash flows from derivatives	156	—	—	—	—	—	—	—	—

Included were all financial instruments used by STADA which existed as of the respective balance sheet date and for which payments had already been contractually agreed.

Further details on liabilities from derivative financial instruments can be found in the Notes on financial instruments Note 45. and Note 46.7.

### 39. Other liabilities

Other liabilities were comprised as follows:

in € k	Dec. 31, 2017		Dec. 31, 2016	
	Total	thereof: current	Total	thereof: current
Tax liabilities . . . . .	10,254	10,251	8,170	8,121
Personnel-related liabilities . . . . .	66,373	66,373	64,308	64,308
Other liabilities . . . . .	47,846	46,899	47,424	46,504
<b>Total . . . . .</b>	<b>124,473</b>	<b>123,523</b>	<b>119,902</b>	<b>118,933</b>

The rise in other liabilities was mainly attributable to increases in other tax liabilities and personnel liabilities, particularly in the scope of severances.

Remaining liabilities comprise many insignificant individual items in the Group companies.

### 40. Other provisions

Other provisions are composed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Provisions set aside for damages . . . . .	1,393	1,425
Provisions for returns . . . . .	22,114	18,848
<b>Total . . . . .</b>	<b>23,507</b>	<b>20,273</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 40. Other provisions (Continued)

Provisions set aside for damages include possible utilization from pending legal disputes including the associated legal costs and developed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
<b>As of Jan. 1</b> . . . . .	<b><u>1,425</u></b>	<b><u>1,082</u></b>
Added . . . . .	380	857
Utilized . . . . .	—	200
Reversed . . . . .	420	306
Currency translation differences . . . . .	8	— 8
<b>As of Dec. 31</b> . . . . .	<b><u>1,393</u></b>	<b><u>1,425</u></b>

Utilization is expected within the next twelve months.

Provisions for returns developed as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
<b>As of Jan. 1</b> . . . . .	<b><u>18,848</u></b>	<b><u>21,450</u></b>
Added . . . . .	15,408	12,964
Utilized . . . . .	11,996	12,426
Reversed . . . . .	146	3,140
Changes in the scope of consolidation . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b><u>22,114</u></b>	<b><u>18,848</u></b>

### Other Disclosures

#### 41. Notes to the cash flow statement

Cash flow from operating activities consists of changes in items not covered by capital expenditure, financing, changes in exchange rates from the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities decreased to € 262.9 million in the reporting year (previous year: € 333.5 million). This development resulted primarily from significantly higher cash outflows as compared with the previous year in connection with inventories, trade receivables as well as trade payables. The cash-effective increase in inventories was attributable, among other things, to additions at ALIUD PHARMA to secure the ability to deliver within the scope of health insurance tenders. In addition, trade receivables were strongly impacted by decreasing factoring volumes.

Cash flow from investing activities reflects the cash outflows for investments reduced by the inflows from disposals. This amounted to € – 122.6 million in the reporting year (previous year: € – 171.8 million).

In financial year 2017, payments for investments in intangible assets in the amount of € 70.2 million (previous year: € 76.1 million) were made, of which € 39.5 million (previous year: € 33.4 million) related to significant investments in intangible assets for the short-term expansion of the product portfolio. Proceeds from the disposal of non-current assets amounted to € 5.7 million (previous year: € 11.0 million) in the financial year.

The cash flow from investing activities was particularly influenced by payments for investments in intangible assets in the financial year 2017, primarily relating to advance payments made for the development of approvals, trademarks and licence acquisitions in Germany and the United Kingdom. Within the scope of business combinations, there were pay-outs for the final purchase price payment from the acquisition of the Argentinian Laboratorio Vannier as well as for the acquisition of the Serbian pharmaceutical wholesaler Velefarm and a Serbian product portfolio. In the previous year, there were significantly higher pay-outs for business combinations, mainly for the acquisition of a product portfolio in Serbia, the acquisition of the British Natures Aid and the Argentinian Laboratorio Vannier.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 41. Notes to the cash flow statement (Continued)

Proceeds from the disposal of shares in consolidated companies in financial year 2017 related exclusively to the sale of shares in the Chinese STADA Import/Export International Ltd. The selling price was € 6 k and was paid in cash. Assets in the total amount of € 1.7 million and liabilities in the total amount of € 1.7 million were hereby disposed of.

Cash flow from financing activities amounts to € –227.8 million in financial year 2017 (previous year: € 54.3 million) and encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity. This development was particularly attributable to a significantly lower borrowing of funds compared with the comparable period in the previous year. The repayment and borrowing of funds in 2017 shown in the cash outflow from financing activities was effected by the following facts: the financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, a loan in the amount of € 40.0 million was already granted by Nidda Healthcare Holding GmbH in this connection. The resulting cash inflows were allocated to cash flow from financing activities.

Dividend distribution payments at € 44.8 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2016.

Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to € 140.2 million in financial year 2017 (previous year: € 161.8 million).

Cash pursuant to IAS 7 is made up of cash and cash equivalents.

Free cash flow, adjusted for effects from payments for significant investments and acquisitions and effects of proceeds from significant disposals is calculated as follows:

in € k	2017	2016
Cash flow from operating activities . . . . .	262,881	333,522
Cash flow from investing activities . . . . .	– 122,644	– 171,763
+ payments for investments in business combinations according to IFRS 3 . . . .	2,854	52,901
+ payments for significant investments in intangible assets for the short-term expansion of the product portfolio . . . . .	39,484	33,420
– proceeds from disposals in significant disinvestments . . . . .	1,390	4,169
– proceeds from disposals in consolidated companies . . . . .	6	—
<b>Adjusted free cash flow . . . . .</b>	<b>181,179</b>	<b>243,911</b>

### 42. Segment reporting

The measurement approaches for segment reporting are in accordance with the financial reporting methods used in the IFRS Consolidated Financial Statements. Services between the segments are charged based on market prices.

Segmentation within the STADA Group is based on sales differentiation. Thus, the allocation to the individual segments is determined to a large extent by the sales positioning. If this positioning changes for parts of the product portfolio, associated sales are reallocated.

According to the new reporting structure, which was introduced in the previous year, the Group is managed by operating segment, i.e. according to the two segments Generics and Branded Products.

Generics are products for the health care market—usually with a drug character—which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active pharmaceutical ingredient

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Segment reporting (Continued)

or

- the product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have expired,

or

- the product is sold under its international non-proprietary name (INN).

Branded Products are products for the health care market which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products,

or

- the product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on different specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

All other income, expenses and assets, which cannot be directly allocated to the segments, as well as the elimination of sales between segments are recognized under the reconciliation Group holdings/other and consolidation.

Disclosures on significant non-cash items include impairments on inventories and receivables; they do not, however, include depreciation and amortization as well as the offsetting of impairments and write-ups. In addition, further non-cash items, particularly non-cash effects from accruals for health insurance organization billings are included here. Reporting of the segment liabilities and non-current segment assets is waived, as this is without relevance for Group monitoring and for Group reporting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 42. Segment reporting (Continued)

### 42.1 Information by operating segment

in € k		2017	2016
<b>Generics . . . . .</b>	<b>External sales</b>	<b>1,361,681</b>	<b>1,280,757</b>
	Sales with other segments	2,001	3,431
	Total sales	1,363,681	1,284,188
	Operating profit	233,237	195,188
	Depreciation/amortization	53,475	50,535
	Impairment losses	14,325	9,858
	Reversals	8,513	3
	EBITDA	292,549	255,767
	Special items within EBITDA thereof	10,270	9,090
	• effects from purchase price allocations and product acquisitions	– 2,418	– 2,607
	• consultancy services in connection with the takeover process	—	—
	• exchange rate effects CIS/Eastern Europe	—	713
	• other	12,688	10,984
	<i>EBITDA adjusted</i>	302,819	264,857
	Other significant non-cash items within operating result	– 196,002	– 211,828
<b>Branded Products . . . . .</b>	<b>External sales</b>	<b>952,247</b>	<b>858,462</b>
	Sales with other segments	—	40
	Total sales	952,247	858,502
	Operating profit	99,322	81,361
	Depreciation/amortization	65,414	62,140
	Impairment losses	45,624	42,706
	Reversals	5,482	—
	EBITDA	204,878	186,207
	Special items within EBITDA thereof	2,570	14,445
	• effects from purchase price allocations and product acquisitions	– 1,815	– 257
	• consultancy services in connection with the takeover process	—	—
	• exchange rate effects CIS/Eastern Europe	—	8,389
	• other	4,385	6,313
	<i>EBITDA adjusted</i>	207,448	200,652
	Other significant non-cash items within operating result	– 41,999	– 29,358

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**42. Segment reporting (Continued)**

<u>in € k</u>		<u>2017</u>	<u>2016</u>
<b>Reconciliation Group</b>			
<b>holdings/other and</b>			
<b>consolidation . . . . .</b>	<b>External sales</b>	<b>—</b>	<b>1</b>
	Sales with other segments	– 2,001	– 3,471
	Total sales	– 2,001	– 3,470
	Operating profit	– 140,270	– 98,426
	Depreciation/amortization	3,976	4,506
	Impairment losses	407	12,916
	Reversals	—	—
	EBITDA	– 133,609	– 80,466
	Special items within EBITDA	57,205	12,947
	thereof		
	• effects from purchase price allocations and product acquisitions	—	—
	• consultancy services in connection with the takeover process	44,987	—
	• exchange rate effects CIS/Eastern Europe	—	—
	• other	12,218	12,947
	<i>EBITDA adjusted</i>	<i>– 76,404</i>	<i>– 67,519</i>
	Other significant non-cash items within operating result	– 43,057	– 3,426
<b>Group . . . . .</b>	<b>External sales</b>	<b>2,313,928</b>	<b>2,139,220</b>
	Sales with other segments	—	—
	Total sales	2,313,928	2,139,220
	Operating profit	192,289	178,123
	Depreciation/amortization	122,865	117,181
	Impairment losses	60,356	65,480
	Reversals	13,995	3
	EBITDA	363,818	361,508
	Special items within EBITDA	70,045	36,482
	thereof		
	• effects from purchase price allocations and product acquisitions	– 4,233	– 2,864
	• consultancy services in connection with the takeover process	44,987	—
	• exchange rate effects CIS/Eastern Europe	—	9,102
	• other	29,291	30,244
	<i>EBITDA adjusted</i>	<i>433,863</i>	<i>397,990</i>
	Other significant non-cash items within operating result	– 281,058	– 244,612

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Segment reporting (Continued)

#### 42.2. Reconciliation of segment results to net profit

in € k	2017	2016
Adjusted EBITDA for segments . . . . .	510,267	465,509
Special effects within EBITDA . . . . .	12,840	23,535
Reconciliation Group holding/other and consolidation . . . . .	– 133,609	– 80,466
Depreciation, amortization, impairments losses and reversals . . . . .	169,226	182,658
Financial income . . . . .	3,629	2,716
Financial expenses . . . . .	50,475	54,137
<b>Earnings before taxes, Group . . . . .</b>	<b>147,746</b>	<b>127,429</b>

#### 42.3. Information by country

in € k	Sales developments by location of the company		Non-current assets	
	2017	2016	Dec. 31, 2017	Dec. 31, 2016
Germany . . . . .	518,666	532,138	558,151	551,812
Russian Federation . . . . .	364,505	265,459	211,648	234,046
United Kingdom . . . . .	250,201	259,369	405,976	466,087
Italy . . . . .	213,268	201,389	31,986	35,809
Serbia . . . . .	138,185	95,441	292,096	272,183
Other countries . . . . .	829,103	785,424	307,223	345,140
<b>Total, Group . . . . .</b>	<b>2,313,928</b>	<b>2,139,220</b>	<b>1,807,080</b>	<b>1,905,076</b>

In the presentation of sales by the company's business premises, sales to third parties are shown according to the invoicing company's registered office of the countries listed.

Disclosures on assets by country relate to parts of the non-current assets (intangible assets, property, plant and equipment).

#### 42.4. Information on important customers

In accordance with IFRS 8.34, a company must provide notification when sales revenues from business activities from a single external customer or customer group amount to at least 10% of the company's total sales revenues. This applied to one customer in the reporting year. The sales revenues identified with this customer amounted to € 313.3 million. The sales revenues generated were attributable to the Generics segment and the Branded Products segment. In the previous year, this did not apply to any customers.

### 43. Contingent liabilities

Contingent liabilities describe possible obligations to third parties based on past events but which will not become manifest until the occurrence of one or more uncertain future events, which are not under STADA's control. As of the balance sheet date, these contingent liabilities were considered improbable and are therefore not accounted. In addition, there are also contingent liabilities for current obligations, for which however the associated outflow of resources is not considered probable or the amount of the obligation cannot be adequately estimated.

STADA has contingent liabilities, among other things, in connection with patent risks for certain active pharmaceutical ingredients and associated pending or impending proceedings. The resulting possible obligations amounted to approx. € 11.6 million (previous year: € 12.9 million). Development as compared to the previous year are based primarily on the elimination of possible obligations from patent risks in the amount of € 4.6 million. Furthermore, a changed estimate with regard to the volume of impending resource outflows for patent risks that existed already in the previous year as well as potential obligations as a result of a ban on economic activities between Russia and Ukraine led to an increase in contingent liabilities in the amount of € 3.3 million.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43. Contingent liabilities (Continued)

Provisions were not created for contingent liabilities as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be short-term.

### 44. Other financial obligations

In addition to the contingent liabilities, there are also other future financial obligations, which can be broken down as follows:

<u>in € k</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Operating lease liabilities . . . . .	121,317	69,111
Other financial obligations . . . . .	69,085	42,460
<b>Total . . . . .</b>	<b><u>190,402</u></b>	<b><u>111,571</u></b>

Liabilities from operating leases relate, among other things, to IT equipment and vehicles. In addition, there are liabilities from long-term rental agreements for office buildings with an average contract term of 5 years. The increase as compared to the previous year resulted mainly from long-term obligations for logistics services.

The total of future minimum lease payments under operating leases amounted to € 121.3 million as of the end of the financial year (previous year: € 69.1 million) and can be broken down according to remaining term as follows:

<u>in € k</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
	<u>Operating leases</u>	
Remaining terms up to 1 year . . . . .	31,912	28,673
Remaining terms over 1 year to 5 years . . . . .	68,283	37,860
Remaining terms over 5 years . . . . .	21,122	2,578
<b>Total . . . . .</b>	<b><u>121,317</u></b>	<b><u>69,111</u></b>

Lease payments in the amount of € 32.2 million (previous year: € 32.4 million) were recognized as an expense in financial year 2017.

There is still a guarantee amounting to € 25.0 million towards Hospira Inc., Lake Forest, Illinois, USA, in connection with a supply agreement between Hospira and the shares in the associate BIOCEUTICALS Arzneimittel AG which are recognized under the equity method.

STADA, as guarantor, has continued to recognize this guarantee as a financial guarantee in accordance with IAS 39 with a fair value in the amount of € 0.3 million in the reporting year (previous year: € 0.3 million). Utilization of this guarantee granted is currently not expected.

The increase in other financial liabilities resulted primarily from new validity contingent liabilities in Belgium and the United Kingdom. In total, such liabilities in the STADA Group amounted to € 37.4 million as of December 31, 2017.

Furthermore, additional guarantees assumed by the STADA Group are included in other financial liabilities, among other things.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments

#### 45.1. Carrying amounts, valuation rates and fair values according to valuation categories

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are used for the valuation categories pursuant to IAS 39: LaR (loans and receivables), HtM (held-to-maturity investments), AfS (available-for-sale financial assets), FAHfT (financial assets held for trading), FLHfT (financial liabilities held for trading) and FLAC (financial liabilities measured at amortized cost).

in € k	Carrying amount Dec. 31, 2017	Valuation category pursuant to IAS 39	Valuation rate balance sheet in accordance with IAS 39			Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2017	Valuation rate balance sheet in accordance with IAS 39			Fair value included in the income statement	Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2016
			Amortized cost	Fair value not included in the income statement	Fair value included in the income statement			Carrying amount previous year	Amortized cost	Fair value not included in the income statement			
<b>Assets</b>													
Cash and cash equivalents . . . . .	243,195	LaR	243,195	—	—	—	243,195	352,580	352,580	—	—	—	352,580
Trade accounts receivable . . . . .	520,441	LaR	520,441	—	—	—	520,441	489,071	489,071	—	—	—	489,071
Available-for-sale financial assets . . . . .	1,978	AfS	1,978	—	—	—	1,978	2,236	2,236	—	—	—	2,236
Derivative financial assets with hedging relationship . . . . .	678	n/a	—	—	678	—	678	—	—	—	—	—	—
Derivative financial assets without hedging relationship . . . . .	—	FAHfT	—	—	—	—	—	9,914	—	—	9,914	—	9,914
Other financial assets . . . . .	10,217	LaR	10,217	—	—	—	10,217	34,416	34,416	—	—	—	34,416
<b>Equity and liabilities</b>													
Trade accounts payable . . . . .	340,642	FLAC	340,462	—	—	—	340,462	336,844	336,844	—	—	—	336,844
Amounts due to banks . . . . .	84,823	FLAC	84,823	—	—	—	84,772	116,468	116,468	—	—	—	117,531
Promissory note loans . . . . .	525,112	FLAC	525,112	—	—	—	526,000	707,459	707,459	—	—	—	746,076
Bonds . . . . .	647,986	FLAC	647,986	—	—	—	655,656	646,830	646,830	—	—	—	665,138
Liabilities financial leasing . . . . .	3,419	n/a	—	—	—	3,419	3,419	3,316	—	—	—	3,316	3,316
Derivative financial liabilities with hedging relationship . . . . .	1,244	n/a	—	—	1,244	—	1,244	—	—	—	—	—	—
Derivative financial liabilities without hedging relationship . . . . .	6	FLHfT	—	—	6	—	6	11,869	—	—	11,869	—	11,869
Other financial liabilities . . . . .	225,471	FLAC	225,471	—	—	—	225,471	202,763	202,763	—	—	—	202,763
<b>Thereof aggregated according to valuation categories in accordance with IAS 39</b>													
Loans and receivables . . . . .	773,853	LaR	773,853	—	—	—	773,853	876,067	876,067	—	—	—	876,067
Available-for-sale financial assets . . . . .	1,978	AfS	1,978	—	—	—	1,978	2,236	2,236	—	—	—	2,236
Financial assets held for trading . . . . .	—	FAHfT	—	—	—	—	—	9,914	—	—	9,914	—	9,914
Financial liabilities measured at amortized cost . . . . .	1,824,034	FLAC	1,824,034	—	—	—	1,832,541	2,010,364	2,010,364	—	—	—	2,068,352
Financial liabilities held for trading . . . . .	6	FLHfT	—	—	6	—	6	11,869	—	—	11,869	—	11,869

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

Since cash and cash equivalents as well as trade receivables mainly have short remaining terms, their carrying amounts as of the closing date correspond approximately to the fair value.

Deviations of the fair values from the carrying amounts occur as shown in the chart above in the case of promissory note loans, bonds, as well as liabilities to banks. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values for liabilities to credit institutes. Due to the short-term maturity of the promissory note loan, the stated fair value corresponds to the nominal value.

Available-for-sale financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices.

The fair values of remaining financial receivables as well as of held-to-maturity financial investments with remaining terms of more than a year correspond to the present values of the payments connected with the assets taking into consideration the respective current interest parameters that reflect market and partner-related changes in the conditions and expectations. Trade payables as well as remaining financial liabilities also regularly have short remaining terms so that the recognized values approximate the fair values.

For the disclosures according to class of financial instrument necessary in accordance with IFRS 7, STADA defines each valuation category as a class.

The chart below shows how the valuation rates of financial instruments measured at fair value were determined for the respective classes of financial instruments:

Fair values by levels of hierarchy in € k on a recurring basis	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Financial assets held for trading (FAHfT)						
• currency forwards .	—	—	—	4	—	—
• interest rate/ currency swaps . . .	—	—	—	—	—	9,910
Derivative financial assets with hedging relationship						
• fair value hedges . .	—	—	678	—	—	—
Financial liabilities held for trading (FLHfT)						
• currency forwards .	—	—	6	8,507	—	—
• interest rate/ currency swaps . . .	—	—	—	—	—	3,362
Derivative financial liabilities with hedging relationship						
• fair value hedges . .	—	—	1,244	—	—	—

In the context of the preparation of the financial statements, STADA reviews the allocation to the respective hierarchy levels according to information available on the determination of the fair values. If the need for reclassification is determined, the reclassification is carried out as of the beginning of the reporting period. In the financial year, there were no reclassifications among the respective hierarchy levels.

The fair values are analyzed in the context of the preparation of the financial statements. For this purpose, market comparisons and change analyses are carried out.

Derivative financial assets (FAHfT) and derivative financial liabilities (FLHfT) include positive or negative market values of derivative financial instruments (foreign exchange swaps, in the previous year interest rate and currency swaps) not part of a hedging relationship. The fair values of currency forwards are

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

determined using financial mathematics based on current market data provided by a reputable information service, such as spot exchange rates or swap rates, in one system according to standardized procedures. In the previous year, the fair values were determined using appropriate valuation models by external third parties.

STADA designates currency forwards (EUR/RUB), (EUR/DKK), (EUR/CHF), (EUR/USD) and (EUR/GBP) as fair value hedges that are concluded to hedge the currency risks from inter-company loans. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective.

The chart below shows how the valuation rates of assets measured at fair value on a non-recurring basis were determined:

Fair values by levels of hierarchy in € k on a non-recurring basis	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Non-current assets and disposal groups held for sale . . . . .	—	—	1,827	—	—	—

The assets classified as held for sale relate to a real-estate property of a STADA subsidiary in Germany, the sale of which is intended in the short term and therefore a reclassification from non-current assets was undertaken. The non-recurring basis for the determination of fair value represents a valuation created by an independent expert, which was largely based on input parameters observable in the market. In addition, this item includes an intangible asset from a STADA subsidiary in Italy. The non-recurring basis for the calculation of fair value is provided by the confirmation of a purchase price by a third party with whom a purchase contract was signed.

As STADA utilizes pricing information from external third parties without further correction in the determination of the fair value, and therefore did not produce any quantitative, non-observable input factors, the option of IFRS 13 to waive the disclosure of quantitative information on such input factors was taken.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

Financial assets and liabilities allocated to hierarchy level 3 and recognized at fair value developed as follows in financial year 2017:

in € k	Financial assets measured at fair value	Financial liabilities measured at fair value
<b>Balance as of Jan. 1, 2017</b>	<b>9,910</b>	<b>–3,362</b>
Reclassification from level 2	—	—
Currency changes	—	—
Total income	–268	2,511
• in the income statement	–268	2,511
• directly in equity	—	—
Additions	—	—
Realizations	–9,642	851
Reclassification in level 2	—	—
<b>Balance at December 31, 2017</b>	<b>—</b>	<b>—</b>
<b>Income recognized in the income statement</b>	<b>–268</b>	<b>2,511</b>
Other earnings/other expenses thereof	–151	2,226
• attributable to assets/liabilities held as of the balance sheet date	—	—
Financial result thereof	–117	285
• attributable to assets/liabilities held as of the balance sheet date	—	—

Financial assets and liabilities allocated to hierarchy level 3 and measured at equity developed as follows as compared to the previous year:

in € k	Financial assets measured at fair value	Financial liabilities measured at fair value
<b>Balance as of Jan. 1, 2016</b>	<b>27,461</b>	<b>–4,611</b>
Reclassification from level 2	—	—
Currency changes	—	—
Total income	–32,436	524
• in the income statement	–32,436	–749
• directly in equity	—	1,273
Additions	—	—
Realizations	14,885	725
Reclassification in level 2	—	—
<b>Balance at December 31, 2016</b>	<b>9,910</b>	<b>–3,362</b>
<b>Income recognized through profit or loss</b>	<b>–32,436</b>	<b>–749</b>
Other earnings/other expenses thereof	–24,132	–212
• attributable to assets/liabilities held as of the balance sheet date	–3,024	–239
Financial result thereof	–8,304	–537
• attributable to assets/liabilities held as of the balance sheet date	–358	205

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

#### 45.2. Net earnings from financial instruments by valuation category

Net earnings recognized through profit or loss from financial assets and liabilities can be broken down as follows:

Net earnings by valuation category in € k	From interest and dividends	From subsequent measurement			Net earnings		
		at fair value	Currency translation	Value adjustment	from disposals	Dec. 31, 2017	Dec. 31, 2016
Loans and receivables (LaR) .	3,462	—	–8,657	–37,679	—	–42,874	28,980
Available-for-sale financial assets (AfS) . . . . .	–1	—	—	–407	—	–408	–3,426
Financial assets held for trading (FAHfT) . . . . .	–61	561	—	—	8,450	8,950	–35,066
Financial liabilities measured at amortized cost . . . . .	–35,304	—	–8,861	—	—	–44,165	–30,525
Financial liabilities held for trading (FLHfT) . . . . .	–124	–966	—	—	–6,399	–7,489	–29,101
<b>Total . . . . .</b>	<b>–32,028</b>	<b>–405</b>	<b>–17,518</b>	<b>–38,086</b>	<b>2,051</b>	<b>–85,986</b>	<b>–69,138</b>

The disclosure of interest from financial instruments is made in financial income and financial expenses in the interest result. Dividends received are disclosed in investment income. With the exception of the valuation results from interest rate/currency swaps and/or currency swaps recognized at fair value through profit or loss, which are reported under financial income or financial expenses and partially also in the currency translation result, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate to the fulfillment of cross-currency swaps and currency swaps.

#### 45.3. Factoring

##### Factoring transactions with the transfer of essentially all opportunities and risks

There are two revolving receivable selling agreements with banks and financial institutes (together “receivables buyers”) with the transfer of essentially all opportunities and risks without a general purchase limit. The agreements have an unlimited term with regular termination possibilities, whereby STADA is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). In return for a fixed program fee recognized in expenses at the time of derecognition, both risks are fully transferred to the buyer of the receivable. The nominal volume of receivables sold by STADA but not yet paid under the factoring agreements amounted to € 28.6 million on the reporting date.

##### Factoring transactions with distribution of essential opportunities and risks for which control of the asset remains with STADA

There are factoring agreements pursuant to which STADA, on a revolving basis, sells trade receivables up to a total general purchase limit of € 153.3 million to banks and financial institutes. The agreements have an unlimited term with regular termination possibilities, whereby STADA is free to decide if and in what amount the revolving nominal volume is utilized. The risks that are relevant for the risk evaluation with regard to the sold receivables are the credit risk as well as the risk of delayed payment (late payment risk). The credit risk is partially transferred to the buyer of the receivable. The late payment risk continues to be borne in its entirety by STADA. The maximum credit risk to be borne by STADA, translated into euro, amounted to € 3.5 million as of the reporting date. The other credit-risk related defaults are assumed by the buyer. The late payment risk continues to be borne in its entirety by STADA. The maximum risk of loss for STADA resulting from the credit risk and the late payment risk from the receivables sold as of the reporting date, translated into euro, amounted to € 3.8 million. The nominal volume of receivables sold by STADA but not yet paid under the factoring agreements, translated into euro, amounted to € 82.9 million



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

on the reporting date. The ongoing commitment of STADA as of December 31, 2017, translated into euro, amounted to € 3.8 million and the carrying amounts of the associated liability, translated into euro, amounted to € 3.8 million.

### 46. Risk management, derivative financial instruments and disclosures on capital management

#### 46.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board in the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Executive Board must first be approved by the Executive Board. The Executive Board is also regularly informed of the nature, scope and amount of current risks.

#### 46.2. Currency risks

STADA's Group and balance sheet currency is the euro. Due to the international alignment of business activities, STADA is subject to risks arising from exchange rate fluctuations.

On the one hand, these risks consist of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency as a result of exchange rate fluctuation (transaction risk).

However, STADA is only subject to this risk to a limited extent, as the company counters risks from currency related fluctuations through, alongside natural hedges, the use of derivative financial instruments. These are used to hedge currency risks from operating activities, financial transactions and investments. In the reporting year, STADA made use of foreign-exchange futures contracts and interest/currency swaps. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. The remaining term of the contracts is currently up to one year.

In the context of the Consolidated Financial Statements, on the other hand, exchange rate fluctuations lead to an accounting effect as a result of the conversion of the balance sheet items as well as the conversion of earnings and expenses of international Group companies with a different functional currency than euro (translation risk). The appreciation of the euro as compared to the other currencies is generally negative and depreciation is generally positive.

STADA determines quantitative disclosures on risks in connection with currency changes by means of aggregating all of the Group companies' foreign currency items that are not denominated in the respective Group company's functional currency. In case of hedging transactions they are compared with the balances of assets or equity and liabilities from the aggregation. This results in the subsequent material outstanding foreign currency items as of the respective reporting dates, which in case of a change to the foreign

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management (Continued)

currency item due to a 10% appreciation or a 10% depreciation of the euro in comparison respective functional currency are as follows:

in € k	Dec. 31, 2017			Dec. 31, 2016		
	Kazakhstani tenge	US dollar	Ukrainian hryvnia	Kazakhstani tenge	US dollar	Ukrainian hryvnia
Outstanding foreign currency item	+13,574	– 31,264	+9,901	+1,003	– 27,799	+5,651
Income (+) / expense (–) from an appreciation of the euro in comparison to the respective functional currency by 10% . . .	– 1,661	+3,126	– 2,444	– 2,126	+2,780	– 3,089
Income (+) / expense (–) from a depreciation of the euro in comparison to the respective functional currency by 10% . . .	+1,661	– 3,126	+2,444	+2,126	– 2,780	+3,089
Equity increase (+) / equity reduction (–) from an appreciation of the euro in comparison to the respective functional currency by 10% . . .	– 2,178	+3,126	– 1,968	– 2,552	+2,796	– 2,669
Equity increase (+) / equity reduction (–) from a depreciation of the euro in comparison to the respective functional currency by 10% . . .	+2,178	– 3,126	+1,968	+2,552	– 2,796	+2,669

Here, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency items in Kazakhstani tenge and Ukrainian hryvnia relate to a balance from international Group companies in euro and outstanding foreign currency reserves in Kazakhstani tenge and Ukrainian hryvnia. The reported outstanding foreign currency positions in US dollar relate exclusively to foreign currency holdings in US dollar at German and international Group companies. The risk in connection with the outstanding foreign currency reserves in euro, from the Group's perspective, results from the functional currency of the respective international Group company. Overall, based on outstanding foreign currency items as of the reporting date, an appreciation or a devaluation of the respective functional currency by 10% compared to the currencies of relevance for the Group would have led to an effect on earnings in the amount of an expense of € 2.2 million (previous year: € 2.6 million) or in the amount of earnings of € 2.2 million (previous year: € 2.6 million).

#### 46.3. Interest rate risks

STADA is subject to interest risks from the investment of financial assets as well as financial debts, primarily in the Euro zone.

In order to minimize the effects of significant interest rate fluctuations, STADA manages the interest rate risk for the financial liabilities denominated in euro with hedging transactions. Currently there are no cash flow hedges in the form of interest rate swaps. In 2017, an average of 88% (previous year: 85%) of financial liabilities denominated in euro had fixed interest rates. In the previous year, 100% of those denominated in ruble had fixed interest rates, while in the current financial year there are no financial liabilities denominated in ruble.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management (Continued)

STADA calculates existing interest rate risks using sensitivity analyses, which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as equity. The following factors—if relevant—are generally included in the calculation:

- Changes in the market interest rate of interest rate derivatives designated as hedging instruments in the context of cash flow hedges,
- changes in the market interest rate of original financial liabilities with variable interest rates that are not hedged against interest rate risks, and
- Changes in the market interest rate of interest derivatives not part of a hedging relationship.

in € million	Dec. 31, 2017	Dec. 31, 2016
Income (+) / expense (–) from an increase in the market interest rate level of 100 basis points . . . . .	– 1.2	– 1.4
Income (+) / expense (–) from a decrease in the market interest rate level of 100 basis points . . . . .	+0.6	+0.6
Equity increase (+) / equity reduction (–) from an increase in the market interest rate level of 100 basis points . . . . .	—	—
Equity increase (+) / equity reduction (–) from a decrease in the market interest rate level of 100 basis points . . . . .	—	—

The interest-rate risk at STADA is of secondary importance.

#### 46.4. Default risks

STADA is exposed to a default risk in its operating business or as a result of financing activities if contracting parties fail to meet their obligations. Alongside the implementation of appropriate credit management processes, such transactions are generally only concluded with counterparties of impeccable financial standing to avoid default risks in financing activities.

Default risks also exist as a result of the supply of goods and services. STADA therefore strives to maintain business relations only with partners of impeccable financial standing. In addition, STADA partly uses suitable measures such as guarantees, loan insurances or the transfer of assets to safeguard itself against default risk. Past due receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments. Furthermore, there is the risk that in a difficult economic and financial environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

STADA's maximum credit default risk is calculated from the carrying amount of the financial assets recognized. In addition, STADA granted guarantees, which amounted to a total nominal volume of € 63.1 million (previous year: € 28.0 million) as of the reporting date (see Note 44.). STADA has various forms of collateral for credit securities such as mortgages, bank or corporate guarantees, assignments of receivables and pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

#### 46.5. Liquidity risks

Liquidity risks may result, for example, from the loss of existing cash items, lack of availability of credit, reduced access to financing markets or fluctuation in the operational development of business. The goal of the liquidity management is to ensure solvency and financial flexibility of the STADA Group at all times by way of maintaining a sufficient supply of liquidity reserves. STADA finances itself with short-term and long-term borrowings from banks, promissory note loans, bonds and factoring. Furthermore, STADA also has solid operating cash flow.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management (Continued)

#### 46.6. Derivative financial instruments and hedging instruments

STADA counters risks from fluctuations in cash flow with derivative financial instruments, which are exclusively used to hedge interest and currency risks resulting from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculation purposes.

The total volume of currency and interest rate related derivatives is comprised as follows:

in € k	Dec. 31, 2017		Dec. 31, 2016	
	Nominal value	Fair Value	Nominal value	Fair Value
<b>Derivatives without hedging relationship</b>				
Interest rate/currency swaps . . . . .	—	—	48,621	6,548
Currency swaps . . . . .	771	–6	188,634	–8,503
<b>Derivatives with hedging relationship</b>				
Currency swap . . . . .	161,448	–566	—	—
<b>Total . . . . .</b>	<b>162,219</b>	<b>–572</b>	<b>237,255</b>	<b>–1,955</b>

STADA designates currency forwards (EUR/RUB), (EUR/DKK), (EUR/CHF), (EUR/USD) and (EUR/GBP) as fair value hedges that are concluded to hedge the currency risks from inter-company loans. The changes in value of the underlying transaction which result from changes to the respective currency exchange rates, are offset by the changes in value of the currency forwards. The objective of fair value hedges is to hedge against the currency risk of these financial liabilities. Credit risks are not part of this hedging. The effectiveness of the hedging relationship is reviewed both prospectively and retrospectively on each closing date. As of the closing date, all designated hedging relationships were sufficiently effective. In the reporting period, new fair value hedges with a nominal volume totaling € 161.5 million were designated for reduction of the fair value risk (previous year period: € 0). At STADA, as of December 31, 2017, there were currency derivatives with a net fair value of –€ 566 k (December 31, 2016: € 0) which were designated as hedging instruments within the scope of fair value hedges. Losses recognized in currency translation result of € 863 k (2016: € 0) resulted in financial year 2017 from the carrying amount adjustment of the underlying transaction, from the changes in fair values of the hedging transactions, profits of € 863 k (2016: € 0) were recognized in currency translation result.

#### 46.7. Disclosures on capital management

The objectives of the STADA capital management are the safeguarding of the business operation, the creation of a solid equity base for financing profitable growth as well as guaranteeing attractive dividend payments and the capital service. The STADA capital management consistently aims for the Group companies to have an equity basis that corresponds to the local requirements. When implementing and checking the Group's capital and liquidity the legal requirements are taken into account.

Capital is monitored on the basis of net debt, which results from current and non-current financial liabilities minus cash and cash equivalents. An important key figure for capital management at STADA is the net debt to adjusted EBITDA ratio, which amounted to 2.4 in financial year 2017 (previous year: 2.8).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management (Continued)

In this connection, the net debt and net debt to adjusted EBITDA ratio were as follows:

in € k	Dec. 31, 2017	Dec. 31, 2016
Non-current financial liabilities . . . . .	816	1,336,414
Current financial liabilities . . . . .	1,257,105	134,343
Loan liabilities within other financial liabilities . . . . .	40,008	—
<b>Gross debt . . . . .</b>	<b>1,297,929</b>	<b>1,470,757</b>
Cash, cash equivalents and securities classified as available for sale . . . . .	243,195	352,580
<b>Net debt . . . . .</b>	<b>1,054,734</b>	<b>1,118,177</b>
<b>EBITDA (adjusted) . . . . .</b>	<b>433,862</b>	<b>405,750</b>
<b>Net debt to adjusted EBITDA ratio . . . . .</b>	<b>2.4</b>	<b>2.8</b>

The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, a loan in the amount of € 40.0 million was already granted by Nidda Healthcare Holding GmbH in this connection. This loan is included in the calculation of net debt.

### 47. Related party transactions

In the scope of the ordinary course of business STADA Arzneimittel AG and/or its consolidated companies have entered into related party transactions. In accordance with IAS 24, "Related Parties" refers to directly or indirectly controlled subsidiaries that are not consolidated due to lack of material significance, associates and joint ventures as well as affiliated companies and persons in key positions and their close relatives. In principle, all trades were settled with related companies and natural persons at market-rate conditions.

#### 47.1. Transactions with related persons

Persons in key positions are the members of governing bodies of STADA Arzneimittel AG, the remuneration of whom, including further information on the principles of the remuneration system, is presented in detail in the Combined Management Report (see "Remuneration Report"), as well as the summary in Note 48. in relation to quantitative disclosures.

#### 47.2. Transactions with related companies

Bain Capital Investors, LLC, Wilmington, Delaware, USA, and Cinven (Luxco 1) S.A., Luxembourg, exercise direct joint control over the subsidiary Nidda Topco S.à r.l., which in turn indirectly over the following subsidiaries—Nidda Midco S.à r.l., Nidda German Topco GmbH, Nidda German Midco GmbH, Nidda BondCo GmbH and Nidda Healthcare Holding GmbH—through the direct shareholder Nidda Healthcare GmbH holds controlling interest in STADA Arzneimittel AG. The indirect subsidiary of Cinven (Luxco 1) S.A., Cinven Capital Management (VI) General Partner Limited, St. Peter Port, Guernsey, is the fund manager for certain entities of the Sixth Cinven Fund in the sense of an investment management company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47. Related party transactions (Continued)

Expenses and income essentially relate to related party transactions as follows:

<u>in € k</u>	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
<b>Trade accounts receivable</b>		
Non-consolidated subsidiaries . . . . .	23	3,663
Non-consolidated joint ventures . . . . .	169	190
Associates . . . . .	878	626
Joint ventures . . . . .	—	—
<b>Other financial receivables</b>		
Non-consolidated subsidiaries . . . . .	9	2,444
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—
<b>Trade payables</b>		
Non-consolidated subsidiaries . . . . .	9	695
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	3,229	17
Joint ventures . . . . .	—	—

Expenses and income of the STADA Group essentially relate to related party transactions as follows:

<u>in € k</u>	<u>2017</u>	<u>2016</u>
<b>Sales</b>		
Non-consolidated subsidiaries . . . . .	46	6,585
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	1,726	1,521
Joint ventures . . . . .	—	—
<b>Interest income</b>		
Non-consolidated subsidiaries . . . . .	—	281
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	—
Joint ventures . . . . .	—	—
<b>Interest expense</b>		
Non-consolidated subsidiaries . . . . .	—	—
Non-consolidated joint ventures . . . . .	—	—
Associates . . . . .	—	3
Joint ventures . . . . .	—	—

In addition, there are business relationships between STADA and its affiliated companies from which outstanding trade payables in the amount of € 0.4 million arise as of the balance-sheet date December 31, 2017. The transaction volume with these companies in 2017 since the time of the takeover by Bain Capital and Cinven amounted to a total of € 2.7 million.

In addition, the following disclosures on related party transactions are made:

As of December 31, 2017, STADA Arzneimittel AG has a loan payable to Nidda Healthcare Holding GmbH in the amount of € 40.0 million. The financing agreements stipulate a right of return for the bonds, promissory note loans or bank loans on the part of the respective investors in the case of a change of control and a change to STADA's rating. Nidda Healthcare Holding AG (now Nidda Healthcare Holding GmbH), as part of the takeover offer, agreed to provide STADA with financing for the financing amounts for which an early repayment of the STADA financing is upcoming. In 2017, the loan already mentioned with an interest rate of 1.81% p.a. was granted by Nidda Healthcare Holding GmbH in this connection.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47. Related party transactions (Continued)

There is a service contract with BIOCEUTICALS Arzneimittel AG, as well as distribution rights for Epo-zeta in Germany granted by BIOCEUTICALS Arzneimittel AG to, among others, STADAPHARM GmbH. In some other European countries (such as Serbia or Russia, for example), a local STADA-owned subsidiary can also receive or has already received a local sales license at the same time.

### 48. Remuneration of the Executive Board and the Supervisory Board

The aggregate remuneration of the Executive Board and the Supervisory Board including further information on the principles of the remuneration system are presented in detail in the Combined Management Report (see “Remuneration Report”).

In summary, the following disclosures regarding the remuneration of the Executive Board and Supervisory Board at STADA Arzneimittel AG are made according to IAS 24 in consideration of the disclosure requirements of Section 314 (1) No. 6a Sentence 1-4 HGB:

in € k	Fixed and variable current remuneration		Variable remuneration non-current		Termination benefits		Expenses for pension commitments earned in the current year		Total remuneration	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Members of the Executive Board . . . . .	4,164 <sup>12</sup>	4,891 <sup>13</sup>	958 <sup>14</sup>	2,843 <sup>15</sup>	6,402	7,138 <sup>16</sup>	—	—	11,524	14,872
Members of the Supervisory Board . . . . .	1,089 <sup>17</sup>	1,072 <sup>18</sup>	—	—	—	—	—	—	1,089	1,072

The variable current remuneration of Executive Board members which, as in the previous year was reported within other liabilities, includes a share-based payment as a long-term oriented remuneration component, which is paid in cash. The fair value of the share-based payment was calculated using the Monte Carlo model. The expense for the share-based payment amounted to € 1.0 million in the previous year. As of December 31, 2017, there was no longer any share-based remuneration because these were fixed as part of a termination agreement or changeover. This resulted in total expenses in the amount of € 0.8 million.

As of December 31, 2017 there were outstanding liabilities to members and former members of the Executive Board in the amount of € 9.6 million.

Remuneration to former members of the Executive Board amounted to a total of € 3,261 k in financial year 2017. The fair value of pension commitments for former Executive Board members amounted to € 48,199 k as of December 31, 2017.

There were no loans granted to members of the Executive Board and Supervisory Board at STADA Arzneimittel AG as of the reporting date. Nor has STADA taken on any contingent liabilities for the benefit of the members of governing bodies of STADA Arzneimittel AG.

<sup>12</sup> Thereof € 458 k performance-related and € 3,706 k non-performance related.

<sup>13</sup> Thereof € 1,318 k performance-related and € 3,573 k non-performance related.

<sup>14</sup> These result from the final calculation of the multi-year variable long-term special remuneration “long-term goals 2018”, the final calculation of the LTIP 2016 and 2017 due to the termination agreement that was concluded.

<sup>15</sup> This includes the final calculation of the multi-year variable long-term special remuneration “long-term targets 2016” (year of target achievement), however only for the period of the actual implementation of the contracts, on which the remuneration is based, up to December 31, 2015 in the total amount of € 2,052 k.

<sup>16</sup> € 1,253 k thereof is attributable to the continued salary payment and € 5,885 k to a severance payment in connection with the end of the Executive Board appointment of Mr. Retzlaff as of August 15, 2016.

<sup>17</sup> Thereof € 316 k performance-related and € 773 k non-performance related.

<sup>18</sup> Thereof € 329 k performance-related and € 743 k non-performance related.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49. Fees for the auditor

For the services provided by the auditors PriceWaterhouseCoopers GmbH and the auditors of the previous year PKF Deutschland GmbH, the following fees were recognized as expenses in financial year 2017 and in the previous year.

The following disclosures are made for the auditors PriceWaterhouseCoopers GmbH:

<u>in € k</u>	<u>2017</u>	<u>2016</u>
Fees for the auditor . . . . .	1,508	—
• thereof for audits . . . . .	468	—
• thereof for other confirmation services . . . . .	—	—
• thereof for other services . . . . .	993	—
• thereof for tax consultancy services . . . . .	47	—

The following disclosures are made for the auditors PKF Deutschland GmbH:

<u>in € k</u>	<u>2017</u>	<u>2016</u>
Fees for the auditor . . . . .	396	617
• thereof for audits . . . . .	370	370
• thereof for other confirmation services . . . . .	26	100
• thereof for other services . . . . .	—	147
• thereof for tax consultancy services . . . . .	—	—

The fees for audits relate to payment for the audit of the Consolidated Financial Statements as well as the Financial Statements of STADA Arzneimittel AG and its German subsidiaries at the end of the financial year. They also include for financial year 2017 the review of the Interim Consolidated Financial Statements of June 30, 2017.

The fees for financial year 2016 for the review of the Interim Consolidated Financial Statements of June 30, 2016, include, among other things, confirmation services.

Other services from PricewaterhouseCoopers GmbH relate primarily to services within the scope of due diligence processes.

### 50. Corporate Governance

The declaration on the German Corporate Governance Code prescribed by Section 161 of the German Stock Corporation Act was last issued by the Executive Board and Supervisory Board in December 2017. The declaration is publicly available via the Company's website ([www.stada.de](http://www.stada.de) in German or [www.stada.com](http://www.stada.com) in English) and is also presented in the Annual Report.

### 51. Events after the end of the financial year

After the closing date, the following events with significant or possibly significant effects on the net assets, financial position and results of operations of the STADA Group occurred:

- The Extraordinary General Meeting of STADA Arzneimittel AG on February 2, 2018 with a majority of 99% approved the conclusion of the domination and profit and loss transfer agreement of December 19, 2017 between Nidda Healthcare GmbH as controlling entity and STADA as dependent company.<sup>19</sup> The domination and profit and loss transfer agreement provides for an annual compensation payment for the remaining STADA shareholders of € 3.82 gross or currently € 3.53 net as well as a settlement in the amount of € 74.40 per STADA share. The agreement must be entered into the Commercial Register before it takes effect.
- Due to the takeover in 2017, creditors of STADA Arzneimittel AG, pursuant to the financing conditions, have the right to prematurely redeem bonds, promissory note loans and bank loans. In this connection, a partial amount of € 360.2 million was called due prematurely during the first quarter of 2018. For the refinancing of these transactions, STADA received loans from Nidda Healthcare

<sup>19</sup> See the Company's investor News of February 2, 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51. Events after the end of the financial year (Continued)

Holding GmbH in the amount of € 347.0 million and used own cash. There was also a repayment of promissory note loans in the amount of € 9.5 million from own cash.

The remaining outstanding amount of € 891.0 million is comprised as follows:

Financial instruments following exercise of put rights and additional repayment in € million	Outstanding	Maturity
Bond . . . . .	347.1	Jun. 5, 2018
Promissory note loans . . . . .	86.5	Jan. 23, 2019
Promissory note loans . . . . .	18.5	Nov. 7, 2019
Promissory note loans . . . . .	70.5	Apr. 26, 2021
Bond . . . . .	289.7	Apr. 8, 2022
Promissory note loans . . . . .	19.0	Apr. 26, 2023
	<b>831.3</b>	
Further bank loans . . . . .	59.7	Rolled
<b>Total financial liabilities . . . . .</b>	<b>891.0</b>	

The increase in current financial liabilities in the fourth quarter of 2017 was attributable to the reclassification of promissory note loans, bonds and financial liabilities due to banks of STADA Arzneimittel AG. Following the early repayment of amounts called due in the first quarter of 2018 a corresponding reclassification of the financial liabilities from short-term to short and long-term liabilities was carried out in the first quarter of 2018.

- The Supervisory Board of STADA Arzneimittel AG appointed Peter Goldschmidt as new Chairman of the Executive Board as of September 1, 2018. Peter Goldschmidt will take over from Dr. Claudio Albrecht who has been the CEO at STADA since September 27, 2017.<sup>20</sup>

### 52. Dividend

According to the German Stock Corporation Act, the distributable dividend is determined according to the distributable profit reported by STADA Arzneimittel AG in its annual financial statements prepared in accordance with the rules and regulations of German Commercial Law. This amounted to € 61,268,491.05 as of December 31, 2017. The Executive Board of STADA Arzneimittel AG proposes that a dividend of € 0.11 per STADA share be appropriated from this distributable profit for financial year 2017. In financial year 2017, a dividend in the amount of € 0.72 per STADA share was distributed to shareholders from the distributable profit of financial year 2016.

Bad Vilbel, March 8, 2018

Dr. Claudio Albrecht  
*Chairman of the  
Executive Board*

Mark Keatley  
*Chief Financial  
Officer*

Dr. Barthold Piening  
*Chief Technical  
Officer*

<sup>20</sup> See the Company's ad hoc release and press release of February 2, 2018.

*The following auditor's report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) on the consolidated financial statements and the group management report (Konzernlagebericht) of STADA Arzneimittel AG as of and for the financial year ended December 31, 2017. The group management report is neither included nor incorporated by reference in this offering memorandum.*

## **INDEPENDENT AUDITOR'S REPORT**

To STADA Arzneimittel AG, Bad Vilbel

### **REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT**

#### *Audit Opinions*

We have audited the consolidated financial statements of STADA Arzneimittel AG, Bad Vilbel, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of STADA Arzneimittel AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

#### *Basis for the Audit Opinions*

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

### *Key Audit Matters in the Audit of the Consolidated Financial Statements*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- (1) Recoverability of goodwill and other intangible assets
- (2) Revenue recognition including expected revenue reductions
- (3) Inclusion of STADA—VN Joint Venture Co. Ltd., Ho Chi Minh City, Vietnam

Our presentation of these key audit matters has been structured in each case as follows:

- (1) Matter and issue
- (2) Audit approach and findings
- (3) Reference to further information

Hereinafter we present the key audit matters:

- (1) Recoverability of goodwill and other intangible assets

- (1) The “Intangible assets” balance sheet item reported in the Company’s consolidated financial statements included EUR 396 million (12% of consolidated total assets) for “Goodwill” and EUR 938 million (29% of consolidated total assets) for “Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights”. While goodwill and other intangible assets with indefinite useful lives must be tested for impairment (“impairment test”) on an annual basis or if there are indications of impairment, such a test needs only to be carried out for intangible assets with definite useful lives if there are indications of impairment (“triggering events”).

Goodwill is tested for impairment at the level of the group of cash-generating units to which the relevant goodwill is allocated. In an impairment test, the carrying amount of the respective cash-generating unit (including the affected goodwill) is compared against the higher of the value in use and the fair value less costs of disposal. In a first step, the Company generally conducts the test based on the value in use. For the umbrella brands with indefinite useful lives, the relief from royalty method is initially applied.

The Company has identified certain indicators, which are monitored and in case of negative development trigger an impairment test for assets with definite useful lives. In the case of regulatory drug approvals, however, an impairment test is carried out in each instance at the end of the financial year. Brands and regulatory drug approvals are normally measured based on the present value of future cash flows generated by the affected asset from marketing the respective products. An impairment loss is recognized if the recoverable amount is less than the respective carrying amount.

Present value is calculated using discounted cash flow models. The starting point is the Group’s three-year financial plan, which is projected forward using growth assumptions. The discount rate used is the weighted cost of capital for the relevant cash-generating unit or group of cash-generating units. The result of this measurement depends to a large extent on the estimates made by the executive directors with respect to the future cash inflows, the discount rate used, the rate of growth and other assumptions and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the measurement, this matter was of particular significance for our audit.

- (2) As part of our audit, we reviewed the methodological procedure adopted for the purpose of the impairment tests and assessed the calculation of the weighted cost of capital, among other things. We verified the appropriateness of the future cash inflows used in the measurement, including by comparing these disclosures with the current budgets in the three-year plan prepared by the executive directors and approved by the Supervisory Board, and by reconciling them against general and sector-specific market expectations. We also assessed whether the basis for including

the costs of Group functions was accurate. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. In order to reflect the uncertainty inherent in the projections, we reproduced the sensitivity analyses performed by the Company and carried out our own additional sensitivity analyses with respect to those cash-generating units with low headroom (recoverable amount compared with the carrying amount). Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

- (3) The Company's disclosures on goodwill and intangible assets are contained in notes 9 "Accounting policies" and 24 "Intangible assets" to the consolidated financial statements.

(2) Revenue recognition including expected revenue reductions

- (1) The EUR 2,314 million reported under "Sales" in the Company's consolidated financial statements relate primarily to the sale of products and provision of services. Since large-volume transactions are involved, the company has established comprehensive processes and systems for recognizing and deferring sales. Revenues are recognized when the goods have been delivered or the services rendered. Amounts are measured at fair value less expected revenue reductions (including discounts to health insurance organizations, other health sector institutions and customers, as well as expected returns). When recognizing revenues, material assumptions have to be made with respect to discounts that must subsequently be granted and returns that must subsequently be accepted, and the corresponding revenue adjustments have to be recognized.

Particularly in Germany, discount arrangements with health insurance organizations are agreed for a specific pharmaceutical ingredient by means of tenders over a specific period of time. The corresponding drug is initially sold to patients at a binding sales price, which is then subject to a discount subsequently granted to the respective health insurance organization.

The revenue adjustments are based to a large degree on the executive directors' estimates and assumptions and are therefore subject to considerable uncertainties. Against this background and due to the underlying complexity of the measurement on which this significant item in terms of its amount was based, this matter was of particular significance for our audit.

- (2) Our audit included assessing the appropriateness and effectiveness of the processes and controls within the Company's internal control system established to realize revenues and make revenue adjustments, including the IT systems used. To this end, we also involved our specialists from Risk Assurance Services (RAS). With the knowledge that the complexity of the accounting treatment and the estimates and assumptions to be made give rise to an increased risk of accounting misstatements, we assessed the appropriateness of the estimates made by the executive directors with respect to revenue adjustments. At the same time, we verified and assessed the methodology applied by the executive directors to make revenue adjustments. We also used the detailed information obtained to assess the relevant assumptions made by the executive directors as of the balance sheet date. In addition, we verified the consistency of the methods used by the Company to recognize revenues and make revenue adjustments. We also compared the revenue adjustments with contract documents.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors concerning the recognition and measurement of revenues were sufficiently documented and that the estimates applied and the assumptions made by the executive directors were consistently derived.

- (3) The Company's disclosures relating to revenue recognition are contained in notes 9 "Accounting policies" and 11 "Sales" to the consolidated financial statements.

(3) Inclusion of STADA—VN Joint Venture Co. Ltd., Ho Chi Minh City, Vietnam

- (1) In the Company's consolidated financial statements as of December 31, 2017, STADA—VN Joint Venture Co. Ltd. ceased to be a consolidated subsidiary, and since November 29, 2017 has instead been reported as an associate accounted for using the equity method. STADA Arzneimittel AG



continues to hold a 50% indirect interest in STADA—VN Joint Venture Co. Ltd. The previous consolidation was based on control over the company within the meaning of IFRS 10 by means of contractual multiple voting rights. Based on plans to dispose of the 50% equity interest, the assets and liabilities of STADA—VN Joint Venture Co. Ltd. were reported as held for sale in the consolidated financial statements as of December 31, 2016, pursuant to IFRS 5. In the course of the financial year 2017, these plans to dispose of the interest were initially abandoned. The other shareholder caused the company to temporarily cease interim financial reporting to the Group. Pursuant to the agreement dated November 29, 2017, the parties have now agreed that the indirect interest in STADA—VN Joint Venture Co. Ltd. held by STADA Arzneimittel AG will be sold to the other shareholder as of December 31, 2019, for a fixed selling price. In this context, the multiple voting right held to date was also relinquished and transferred to the other shareholder. Significant influence over the company remains. The transfer to accounting using the equity method resulted in a EUR 5.5 million loss on disposal, which was recognized under other expenses.

Due to the applicability of Vietnamese law, assessing the potential enforceability of the multiple voting rights as of November 29, 2017 is very complex and is based to a significant extent on estimates on the part of the executive directors. Against this background, this matter was of particular significance for our audit.

- (2) In order to audit the correct accounting treatment during the financial year 2017, we began by examining the contractual agreements between the shareholders, including the agreement dated November 29, 2017. Furthermore, our assessment included the correspondence exchanged between the shareholders and information provided by lawyers on the legal validity of the avoidance of the joint venture agreement and the legal enforceability of the multiple voting right. In light of our first-time audit of the consolidated financial statements, we obtained further audit assurance with respect to this matter by examining the prior-year audit report and the prior-year auditor's report on the review of the interim consolidated financial statements as of June 30, 2017. We also discussed this matter with the prior-year auditor.

We were able to satisfy ourselves that the inclusion of STADA—VN Joint Venture Co. Ltd. in the consolidated financial statements, including the transitional consolidation as of November 29, 2017, was clearly documented and sufficiently substantiated.

- (3) The Company's disclosures on the disposal of the interest in STADA—VN Joint Venture Co. Ltd. and the changes in the scope of consolidation are contained in note 5 "Scope of consolidation" to the consolidated financial statements.

### *Other Information*

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "corporate governance report" of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report—excluding cross-references to external information—with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

*Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report*

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report*

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group 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 consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### ***Further Information pursuant to Article 10 of the EU Audit Regulation***

We were elected as group auditor by the annual general meeting on August 30, 2017. We were engaged by the supervisory board on September 14, 2017. We have been the group auditor of the STADA Arzneimittel AG, Bad Vilbel, without interruption since the financial year 2017.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

***GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT***

The German Public Auditor responsible for the engagement is Dr. Bernd Roesé.

Frankfurt am Main, March 8, 2018

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

[sgd. Dr. Bernd Roesé]  
Wirtschaftsprüfer  
(German Public Auditor)

[sgd. ppa. Olav Krützfeldt]  
Wirtschaftsprüfer  
(German Public Auditor)

**CONSOLIDATED FINANCIAL STATEMENTS OF STADA ARZNEIMITTEL AG  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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## CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement  
for the period from Jan. 1 to Dec. 31 in € 000s

	2016	Previous year	Note
Sales . . . . .	2,139,220	2,115,129	11.
Cost of sales . . . . .	1,105,313	1,101,709	12.
<b>Gross profit . . . . .</b>	<b>1,033,907</b>	<b>1,013,420</b>	
Selling expenses . . . . .	488,323	482,643	13.
General and administrative expenses . . . . .	182,696	178,364	14.
Research and development expenses . . . . .	65,111	64,993	15.
Other income . . . . .	19,279	20,032	16.
Other expenses . . . . .	138,933	83,709	17.
<b>Operating profit . . . . .</b>	<b>178,123</b>	<b>223,743</b>	
Result from investments measured at equity . . . . .	703	1,419	
Investment income . . . . .	24	138	
Financial income . . . . .	2,716	1,170	
Financial expenses . . . . .	54,137	68,667	
<b>Financial result . . . . .</b>	<b>– 50,694</b>	<b>– 65,940</b>	18.
<b>Earnings before taxes . . . . .</b>	<b>127,429</b>	<b>157,803</b>	
Income taxes . . . . .	31,938	40,638	19.
<b>Earnings after taxes . . . . .</b>	<b>95,491</b>	<b>117,165</b>	
thereof			
• distributable to shareholders of STADA Arzneimittel AG (net income) . . . . .	85,904	110,404	
• distributable to non-controlling shareholders . . . . .	9,587	6,761	20.
Earnings per share in € (basic) . . . . .	1.38	1.79	21.
Earnings per share in € (diluted) <sup>(1)</sup> . . . . .	—	1.79	

(1) Earnings per share will not be diluted in financial year 2016, because the share options from the STADA warrants in connection with the Conditional Capital Increase 2004/I expired on June 26, 2015.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income in € 000s	2016	Previous year	Note
<b>Earnings after taxes</b> . . . . .	<b>95,491</b>	<b>117,165</b>	
<b>Items to be recycled to the income statement in future:</b>			
<b>Currency translation gains and losses</b> . . . . .	<b>– 13,914</b>	<b>8,928</b>	34.
thereof			
• income taxes . . . . .	– 1,493	352	19.
<b>Gains and losses on available-for-sale financial assets</b> . . . . .	<b>—</b>	<b>– 22</b>	45.
thereof			
• income taxes . . . . .	—	5	19.
<b>Gains and losses on hedging instruments (cash flow hedges)</b> . . . . .	<b>913</b>	<b>1,054</b>	45.
thereof			
• income taxes . . . . .	– 360	– 338	19.
<b>Items not to be recycled to the income statement in future:</b>			
<b>Revaluation of net debt from defined benefit plans</b> . . . . .	<b>– 4,980</b>	<b>2,822</b>	35.
thereof			
• income taxes . . . . .	1,226	– 23	19.
<b>Other comprehensive income</b> . . . . .	<b>– 17,981</b>	<b>12,782</b>	
<b>Consolidated comprehensive income</b> . . . . .	<b>77,510</b>	<b>129,947</b>	
thereof			
• distributable to shareholders of STADA Arzneimittel AG . . . . .	66,520	120,584	
• distributable to non-controlling shareholders . . . . .	10,990	9,363	

## CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet as of Dec. 31 in € 000s

Assets	Dec. 31, 2016	Dec. 31, 2015	Note
<b>Non-current assets</b>	<b>1,949,543</b>	<b>2,032,309</b>	
Intangible assets	1,582,361	1,649,020	24.
Property, plant and equipment	322,715	321,617	25.
Financial assets	2,236	1,339	26.
Investments measured at equity	13,872	13,168	27.
Other financial assets	4,450	8,718	29.
Other assets	3,095	4,374	30.
Deferred tax assets	20,814	34,073	19.
<b>Current assets</b>	<b>1,490,901</b>	<b>1,255,106</b>	
Inventories	484,904	501,520	31.
Trade accounts receivable	489,071	485,901	28.
Income tax receivables	12,816	21,182	19.
Other financial assets	39,880	74,279	29.
Other assets	28,690	29,046	30.
Cash and cash equivalents	352,580	143,178	32.
Non-current assets and disposal groups held for sale	82,960	—	33.
<b>Total assets</b>	<b>3,440,444</b>	<b>3,287,415</b>	
<b>Equity and liabilities</b>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Note</b>
<b>Equity</b>	<b>1,047,105</b>	<b>1,018,530</b>	34.
Share capital	162,090	162,090	
Capital reserve	514,189	514,171	
Retained earnings including net income	673,253	635,344	
Other provisions	— 379,074	— 364,105	
Treasury shares	— 1,418	— 1,458	
<b>Equity attributable to shareholders of the parent</b>	<b>969,040</b>	<b>946,042</b>	
Shares relating to non-controlling shareholders	78,065	72,488	
<b>Non-current borrowed capital</b>	<b>1,493,712</b>	<b>1,282,577</b>	
Other non-current provisions	35,997	28,869	35.
Financial liabilities	1,336,414	1,084,213	36.
Other financial liabilities	3,916	7,201	38.
Other liabilities	969	2,053	39.
Deferred tax liabilities	116,416	160,241	19.
<b>Current borrowed capital</b>	<b>899,627</b>	<b>986,308</b>	
Other provisions	20,273	22,532	40.
Financial liabilities	134,343	274,672	36.
Trade accounts payable	336,844	328,487	37.
Income tax liabilities	60,625	39,444	19.
Other financial liabilities	214,031	218,792	38.
Other liabilities	118,933	102,381	39.
Non-current liabilities and associated liabilities of disposal groups held for sale and disposal groups	14,578	—	33.
<b>Total equity and liabilities</b>	<b>3,440,444</b>	<b>3,287,415</b>	

## CONSOLIDATED CASH FLOW STATEMENT

Consolidated Cash Flow Statement in € 000s	Dec. 31, 2016	Dec. 31, 2015	Note
Net income . . . . .	95,491	117,165	
Depreciation and amortization net of write-ups of non-current assets . . . . .	182,657	151,848	23.
Income taxes . . . . .	31,938	40,638	19.
Income tax paid . . . . .	– 18,580	– 29,940	
Interest income and expenses . . . . .	50,175	64,434	18.
Interest and dividends received . . . . .	4,161	4,674	
Interest paid . . . . .	– 50,548	– 69,886	
Result from investments measured at equity . . . . .	– 703	– 1,419	18.
Result from the disposals of non-current assets . . . . .	1,438	– 2,317	16./17.
Additions to / reversals of other non-current provisions . . . . .	3,127	6,125	35.
Currency translation income and expenses . . . . .	9,379	19,549	16./17.
Other non-cash expenses and gains <sup>(1)</sup> . . . . .	211,976	229,469	
<b>Gross cash flow . . . . .</b>	<b>520,511</b>	<b>530,340</b>	
Changes in inventories . . . . .	– 18,012	– 52,918	31.
Changes in trade accounts receivable . . . . .	1,248	– 12,889	28.
Changes in trade accounts payable . . . . .	5,038	– 25,765	37.
Changes in other net assets, unless attributable to investing or financing activities <sup>(1)</sup> . . . . .	– 175,263	– 127,020	
<b>Cash flow from operating activities . . . . .</b>	<b>333,522</b>	<b>311,748</b>	41.
Payments for investments in			
• intangible assets . . . . .	– 76,127	– 81,410	24.
• property, plant and equipment . . . . .	– 49,765	– 51,230	25.
• financial assets . . . . .	– 4,869	– 615	26.
• business combinations according to IFRS 3 . . . . .	– 52,901	– 56,778	8.
Proceeds from the disposal of			
• intangible assets . . . . .	4,000	4,689	24.
• property, plant and equipment . . . . .	6,142	832	25.
• financial assets . . . . .	—	498	26.
• shares in consolidated companies . . . . .	854	5,797	
<b>Cash flow from investing activities . . . . .</b>	<b>– 172,666</b>	<b>– 178,217</b>	41.
Borrowing of funds . . . . .	494,145	677,316	36.
Settlement of financial liabilities . . . . .	– 389,973	– 816,727	36.
Dividend distribution . . . . .	– 50,616	– 47,873	34.
Capital increase from share options . . . . .	—	28,224	34.
Changes in non-controlling interests . . . . .	1,623	3,918	34.
Changes in treasury shares . . . . .	58	53	34.
<b>Cash flow from financing activities . . . . .</b>	<b>55,237</b>	<b>– 155,089</b>	41.
<b>Changes in cash and cash equivalents . . . . .</b>	<b>216,093</b>	<b>– 21,558</b>	41.
Changes in cash and cash equivalents due to the scope of consolidation in accordance with IFRS 5 . . . . .	– 3,431	228	
Changes in cash and cash equivalents due to exchange rates . . . . .	– 3,260	299	
<b>Net change in cash and cash equivalents . . . . .</b>	<b>209,402</b>	<b>– 21,031</b>	32.
<b>Balance at beginning of the period . . . . .</b>	<b>143,178</b>	<b>164,209</b>	
<b>Balance at end of the period . . . . .</b>	<b>352,580</b>	<b>143,178</b>	

(1) Non-cash additions to accruals for discounts to health insurance organizations in 2016 in the amount of € 163.2 million (previous year: € 166.3 million) are recognized in gross cash flow and are therefore not included in changes in other net assets.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Consolidated Statement of Changes in Shareholders' Equity in € 000s 2016	Number of shares	Share capital	Capital reserve	Retained earnings including net income	Provisions for currency translation	Provisions available for sale	Provisions for cash flow hedges	Treasury shares	Equity attributable to shareholders of the parent	Shares relating to non-controlling shareholders	Group equity
<b>Balance as of Dec. 31, 2016</b> . . . . .	<b>62,342,440</b>	<b>162,090</b>	<b>514,189</b>	<b>673,253</b>	<b>- 379,074</b>	<b>—</b>	<b>—</b>	<b>- 1,418</b>	<b>969,040</b>	<b>78,065</b>	<b>1,047,105</b>
Dividend distribution . . . . .				- 43,580					- 43,580	- 7,036	- 50,616
Capital increase from share options . . . . .									—		—
Changes in treasury shares . . . . .			18					40	58		58
Changes in retained earnings . . . . .									—		—
Changes in non-controlling interests . . . . .									—	1,623	1,623
Changes in the scope of consolidation . . . . .									—		—
Other income . . . . .				- 4,415	- 15,882		913		- 19,384	1,403	- 17,981
Net income . . . . .				85,904					85,904	9,587	95,491
<b>Balance as of Jan. 1, 2016</b> . . . . .	<b>62,342,440</b>	<b>162,090</b>	<b>514,171</b>	<b>635,344</b>	<b>- 363,192</b>	<b>—</b>	<b>- 913</b>	<b>- 1,458</b>	<b>946,042</b>	<b>72,488</b>	<b>1,018,530</b>
<b>Previous year</b>											
<b>Balance as of Dec. 31, 2015</b> . . . . .	<b>62,342,440</b>	<b>162,090</b>	<b>514,171</b>	<b>635,344</b>	<b>- 363,192</b>	<b>—</b>	<b>- 913</b>	<b>- 1,458</b>	<b>946,042</b>	<b>72,488</b>	<b>1,018,530</b>
Dividend distribution . . . . .				- 39,955					- 39,955	- 7,919	- 47,874
Capital increase from share options . . . . .	1,715,740	4,461	23,763						28,224		28,224
Changes in treasury shares . . . . .			7					46	53		53
Adjustments previous year on current account . . . . .				1,177					1,177		1,177
Changes in retained earnings . . . . .									—		—
Changes in non-controlling interests . . . . .									—	3,756	3,756
Changes in the scope of consolidation . . . . .				- 92					- 92		- 92
Other income . . . . .				2,434	6,714	- 22	1,054		10,180	2,602	12,782
Net income . . . . .				110,404					110,404	6,761	117,165
<b>Balance as of Jan. 1, 2015</b> . . . . .	<b>60,626,700</b>	<b>157,629</b>	<b>490,401</b>	<b>561,376</b>	<b>- 369,906</b>	<b>22</b>	<b>- 1,967</b>	<b>- 1,504</b>	<b>836,051</b>	<b>67,288</b>	<b>903,339</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### General Information

#### 1. Corporate information

STADA Arzneimittel Aktiengesellschaft (STADA Arzneimittel AG) as the parent company of the STADA Group (hereafter referred to as “STADA”), based at Stadastrasse 2–18, 61118 Bad Vilbel, is an internationally-oriented company based in Germany and active throughout the world in the health care and pharmaceuticals markets, especially in the Generics and Branded Products segments.

The consolidated financial statements of STADA Arzneimittel AG for financial year 2016 were approved for publication by the Executive Board on March 27, 2017.

#### 2. Basis of preparation of the financial statements

The consolidated financial statements prepared for STADA Arzneimittel AG as parent company as of December 31, 2016, were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC), as applicable in the European Union (EU), as well as in accordance with the supplementary provisions pursuant to Section 315a(1) of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. The separate financial statements of the companies included in the scope of consolidation are prepared as of the same reporting date as the consolidated financial statements.

The structure of the consolidated income statement follows the cost-of-sales method, according to which expenses incurred in generating sales are divided into functional areas. In the statement of comprehensive income, use was made of the option to present this separately from the consolidated income statement. The balance sheet classification distinguishes between non-current and current assets and liabilities, some of which are presented in detail in the notes according to their maturities.

The consolidated financial statements are prepared in euro. Unless otherwise indicated, figures in the notes are shown in euro thousands (€ 000s). Rounding is necessary, although this of course is not significant in its nature.

#### 3. Consequences of new or amended standards and interpretations

In financial year 2016, STADA observed and, if relevant, applied the pronouncements and amendments to pronouncements published by the IASB and endorsed by the EU which were first applicable as of January 1, 2016. The changes had no or no significant effect on the presentation of STADA's net assets, financial position and results of operations.

**The following IFRS standards, which are not yet applicable, have been published by the IASB. Adoption into European law in accordance with IFRS 16 is still pending:**

In July 2014, IASB published the standard IFRS 9 “Financial Instruments”. IFRS 9 replaces IAS 39 and includes guidelines for the classification, recognition and valuation of financial instruments. Furthermore, IFRS 9 also includes guidelines on the accounting of hedging transactions. IFRS 9 is to be applied for financial years beginning on or after January 1, 2018. Earlier application is permitted. An examination of the impact of the application of IFRS 9 on the consolidated financial statements has not yet been completed. As a result of the new guidelines for the impairment of financial instruments, in some cases expected future losses may lead to earlier recognition of expenses.

In May 2014, the IASB published the new standard IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 governs revenue recognition for contracts with customers in a 5-step model and in particular replaces the existing standards IAS 11 “Construction Contracts” and IAS 18 “Revenue”. IFRS 15 is to be applied for financial years beginning on or after January 1, 2018. Earlier application is permitted. An examination of the impact of the application of IFRS 15 on the consolidated financial statements has not yet been completed. However, the new standard on the realization of sales will have little impact on sales accounting, as sales are largely realized in the consolidated financial statements as a result of routine transactions. There are no agreements in the Group which regulate multiple services within one contract

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Consequences of new or amended standards and interpretations (Continued)

or within several contracts (multi-element arrangements). Changes may occur exclusively in the accounting of licensing agreements, which amounted to less than 2% of the total sales revenue in financial year 2016. However, this only affects license agreements which are not bound by the sales achieved by the licensee and which grant the licensee the right to use the license, without further actions by STADA being required. For such license agreements, as a result of the new IFRS 15 standard, in future sales will be realized in the amount of the entire license fee with the granting of a license and therefore not, as they are presently, divided over the term of the license.

In January 2016, the IASB published the new IFRS 16 “Leases” standard, which determines the recognition of contractual rights (assets) and obligations (financial liabilities) associated with leases in the balance sheet for lessees. Lessees are no longer required to classify leases as finance leases or operating leases. IFRS 16 is to be applied for financial years beginning on or after January 1, 2019. Earlier application is permitted. An examination of the impact of the application of IFRS 16 on the consolidated financial statements has not yet been completed. As a result of the accounting of assets and liabilities in the lessee’s balance sheet, as required by IFRS 16, an increase of the balance sheet total is expected at the point of initial application. Instead of leasing expenses, as a result of the changes from IFRS 16, future depreciation and amortization and interest expenses will be recorded in the income statement—with a corresponding positive impact on EBITDA.

From today’s perspective, no or no significant effects on the consolidated financial statements are expected from the future application of the further standards and interpretations not yet applied.

### 4. Changes in accounting policies

With the exception of the changed accounting policies listed in Note 3., there were no changes to accounting policies with significant consequences for the presentation of STADA’s net assets, financial position and results of operations or cash flow in financial year 2016.

### 5. Scope of consolidation

All significant subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by STADA and are therefore fully consolidated. Control exists if STADA Arzneimittel AG or its subsidiaries are in control of an investee, are exposed to variable backflows and, due to control over existing rights, are able to substantially influence the investee’s variable backflows. Control is usually substantiated by a share of voting rights of more than 50%.

Joint arrangements are characterized by joint control by two or more parties and should be classified as either joint operations or as joint ventures. In joint operations, the parties that exercise joint control possess the rights to assets and liabilities included in the agreement. In joint ventures, however, the parties involved possess rights to the company’s net assets. Joint ventures are to be included in the consolidated financial statements using the equity method.

Associates are companies over which STADA is able to exercise significant influence and which are not subsidiaries or joint ventures. They are included in the consolidated financial statements using the equity method.

Subsidiaries, joint ventures and associates whose influence, both individually and as a whole, on the net assets, financial position and results of operations situation of the STADA Group is immaterial, are not consolidated or accounted for using the equity method. Investments in these companies are accounted for either at fair value or at amortized cost under financial assets. Accumulated, the sales and balance sheet total of these companies make up about 1% of total Group sales and/or the balance sheet total.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Changes in the scope of consolidation resulted regarding the number of subsidiaries, joint ventures and associates included in financial year 2016 and are as follows:

<u>Number of companies in the scope of consolidation</u>	<u>Germany</u>	<u>Outside Germany</u>	<u>Total</u>
<b>January 1, 2016</b> . . . . .	<b>12</b>	<b>75</b>	<b>87</b>
Acquisitions . . . . .	—	3	3
Disposals . . . . .	—	2	2
<b>December 31, 2016</b> . . . . .	<b>12</b>	<b>76</b>	<b>88</b>

The acquisition of the Argentinian company Laboratorio Vannier S.A. was completed in accordance with corporate law in the first quarter of 2016. The initial consolidation of the company as a subsidiary occurred on January 1, 2016. In addition, the acquisition of the British company BSMW Limited was completed in accordance with corporate law and was consolidated as a subsidiary for the first time as of February 1, 2016.

Furthermore, the Finnish company Oy STADA Pharma Ab was deconsolidated in the second quarter of 2016 as a result of the completed liquidation.

In addition, the Egyptian company STADA Egypt Ltd. was deconsolidated due to liquidation initiated in the third quarter of 2016.

Furthermore, the British company Natures Aid was included in the scope of consolidation as a result of the acquisition in accordance with corporate law. The initial consolidation was on November 21, 2016.

In the consolidated financial statements of the STADA Group, 84 companies were consolidated as subsidiaries and four companies as associates as of the reporting date on December 31, 2016.

As in the previous year, the aforementioned chart includes BIOCEUTICALS Arzneimittel AG, which is included in the consolidated financial statements as an associate according to the equity method. STADA holds 15.86% of the shares in this company. The significant influence is therefore not directly due to the amount of shares held, but instead is a result of STADA's representation in the supervisory body of BIOCEUTICALS as well as distribution rights granted for Epo-zeta in Germany through cell pharm Gesellschaft für pharmazeutische Präparate mbH and the associated significant business transactions.

As in the previous year, the aforementioned chart also includes both French companies Pharm Ortho Pedic SAS and AELIA SAS, pursuant to shareholdings of 25.0% and 20.0% acquired by STADA, which are included in the consolidated financial statements as an associate in accordance with the equity method. The initial inclusion of the Russian Dialogfarma LLC as an associate took place as of August 1, 2015. The following condensed financial information is given for these four associates:

<u>in € million</u>	<u>2016</u>	<u>2015</u>
Share of result from continuing operations . . . . .	0.7	1.4
Share of result from discontinued operations . . . . .	—	—
Share of other comprehensive income . . . . .	—	—
<b>Share of comprehensive income</b> . . . . .	<b>0.7</b>	<b>1.4</b>
<b>Aggregate carrying amount</b> . . . . .	<b>13.9</b>	<b>13.2</b>

There are significant non-controlling interests in the Vietnamese subsidiaries Pymepharco Joint Stock Company and STADA Vietnam J.V. Co. of the STADA Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

In the following, the influence of other shareholders in these subsidiaries as of December 31, 2016 is presented:

Name of subsidiary	Headquarters/ place of founding	Share in voting rights of non-controlling interests	Result of non-controlling interests in 2016 in € 000s	Accumulated non-controlling shares as of Dec. 31, 2016 in € 000s
Pymepharco . . . . .	Vietnam	41%	3,459	32,114
STADA Vietnam . . . . .	Vietnam	50%	4,935	32,266

The disclosures for the previous year are as follows:

Name of subsidiary	Headquarters/ place of founding	Share in voting rights of non-controlling interests	Result of non-controlling interests in 2015 in € 000s	Accumulated non-controlling shares as of Dec. 31, 2015 in € 000s
Pymepharco . . . . .	Vietnam	41%	2,185	27,983
STADA Vietnam . . . . .	Vietnam	50%	3,633	31,137

In the following, the financial information of both subsidiaries as of December 31, 2016 and for financial year 2016 is summarized:

in € 000s	Assets as of Dec. 31, 2016		Liabilities as of Dec. 31, 2016	
	current	non-current	current	non-current
Pymepharco . . . . .	54,332	52,465	7,652	9,887
STADA Vietnam . . . . .	44,111	39,482	6,087	7,715

in € 000s	Sales	Earnings after taxes in 2016		Total earnings in 2016	Dividends to non-controlling interests in 2016
		distributable to STADA	distributable to non-controlling interests		
Pymepharco . . . . .	60,576	4,978	3,459	10,370	1,623
STADA Vietnam . . . . .	41,856	4,935	4,935	11,515	4,561

For the previous year, the following disclosures are made regarding the summarized financial information:

in € 000s	Assets as of Dec. 31, 2015		Liabilities as of Dec. 31, 2015	
	current	non-current	current	non-current
Pymepharco . . . . .	57,079	40,712	8,743	10,159
STADA Vietnam . . . . .	45,771	36,466	6,281	8,558

in € 000s	Sales	Earnings after taxes in 2015		Total earnings in 2015	Dividends to non-controlling interests in 2015
		distributable to STADA	distributable to non-controlling interests		
Pymepharco . . . . .	53,849	3,033	2,185	8,192	2,249
STADA Vietnam . . . . .	55,827	3,594	3,633	9,982	4,863

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Subsidiaries, joint ventures and associates as well as all non-consolidated and other investments are included in the consolidated financial statements as investments and listed below.

Direct investments of STADA Arzneimittel AG:

Name of the company, registered office	Share in capital	Form of consolidation
AO Nizhpharm, Nizhny Novgorod, Russia . . . . .	100%	subsidiary
BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
BIOCEUTICALS Arzneimittel AG, Bad Vilbel, Germany . . . . .	15.86%	associate
Cicum Farma, Unipessoal, LDA, Paco de Arcos, Portugal . . . . .	100%	subsidiary
Crinos S.p.A., Milan, Italy . . . . .	96.77%	subsidiary
EG Labo - Laboratoires Eurogenerics SAS, Boulogne-Billancourt, France . . . . .	100%	subsidiary
EG S.p.A., Milan, Italy . . . . .	98.87%	subsidiary
Grunenthal Ukraine LLC, Kiev, Ukraine <sup>(1)</sup> . . . . .	100%	not included
Laboratorio STADA, S.L., Barcelona, Spain . . . . .	100%	subsidiary
Laboratorio Vannier S.A., Buenos Aires, Argentina . . . . .	85%	subsidiary
Mobilat Produktions GmbH, Pfaffenhofen, Germany . . . . .	100%	subsidiary
OOO Hemofarm, Obninsk, Russia . . . . .	10%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia . . . . .	10%	subsidiary
SCIOTEC Diagnostics Technologies GmbH, Tulln, Austria . . . . .	100%	subsidiary
STADA Aesthetics Belgique (BVBA), Zaventem, Belgium . . . . .	100%	not included
STADA Aesthetics Deutschland GmbH, Bad Homburg, Germany . . . . .	100%	not included
STADA Arzneimittel Gesellschaft m.b.H., Vienna, Austria . . . . .	100%	subsidiary
STADA d.o.o., Ljubljana, Slovenia . . . . .	100%	subsidiary
STADA d.o.o., Zagreb, Croatia . . . . .	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt <sup>(2)</sup> . . . . .	83.33%	not included
STADA (Shanghai) Company Management Consulting Co. Ltd., Shanghai, China . . . . .	100%	not included
STADA GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA LUX S.à R.L., Luxembourg, Luxembourg . . . . .	100%	not included
STADA PHARMA Bulgaria EOOD, Sofia, Bulgaria . . . . .	100%	subsidiary
STADA PHARMA CZ s.r.o., Prague, Czech Republic . . . . .	100%	subsidiary
STADA Pharma International GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India . . . . .	85%	not included
STADA PHARMA Slovakia s.r.o., Bratislava, Slovakia . . . . .	100%	subsidiary
STADA Pharmaceuticals (Asia) Ltd., Hong Kong, China . . . . .	100%	subsidiary
STADA Pharmaceuticals Australia Pty. Ltd., Sydney, Australia . . . . .	100%	not included
STADA Poland Sp. z o.o., Piaseczno, Poland . . . . .	100%	subsidiary
STADA Service Holding B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
STADapharm GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA UK Holdings Ltd., Reading, United Kingdom . . . . .	100%	subsidiary

(1) Currently in the process of liquidation.

(2) Currently in the process of liquidation. Deconsolidation as of September 30, 2016.

Indirect investments of STADA Arzneimittel AG through EG Labo - Laboratoires Eurogenerics SAS:

Name of the company, registered office	Share in capital	Form of consolidation
AELIA SAS, Saint Brieuc, France . . . . .	20%	associate
Pharm Ortho Pedic SAS, Trélazé, France . . . . .	25%	associate

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
BSMW Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Clonmel Healthcare Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
Fresh Vape Electronic Cigarettes Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Internis Pharmaceuticals Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Lowry Solutions Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Natures Aid Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Pegach AG, Egerkingen, Switzerland . . . . .	100%	subsidiary
Slam Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites E-Commerce Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites Retail Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Sundrops Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Thornton & Ross Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and Thornton & Ross Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
LCM Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Thornton & Ross Ireland Ltd., Clonmel, Ireland . . . . .	100%	subsidiary
Zeroderma Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Slam Trading Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
LAS Trading Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
Socialites Nederlands B.V., Beuningen, Netherlands . . . . .	100%	subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
ALIUD PHARMA GmbH, Laichingen, Germany . . . . .	100%	subsidiary
Blitz F15-487 GmbH, Bad Vilbel, Germany . . . . .	100%	not included
cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
Crinos S.p.A., Milan, Italy . . . . .	3.23%	subsidiary
Croma Medic, Inc., Manila, Philippines . . . . .	100%	subsidiary
EG S.p.A., Milan, Italy . . . . .	1.13%	subsidiary
Grippostad GmbH, Bad Vilbel, Germany . . . . .	100%	not included
Laboratorio Vannier S.A., Buenos Aires, Argentina . . . . .	15%	subsidiary
Nizhpharm-Ukraine DO, Kiev, Ukraine . . . . .	100%	subsidiary
STADA Aesthetics AG, Bottighofen, Switzerland . . . . .	100%	not included
PharmaSwyzz Deutschland GmbH, Bad Homburg, Germany . . . . .	100%	not included
STADA CEE GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary
STADA Egypt Ltd., Cairo, Egypt <sup>(1)</sup> . . . . .	16.67%	not included
STADA Nordic ApS, Herlev, Denmark . . . . .	100%	subsidiary
STADA Pharma Services India Private Ltd., Mumbai, India . . . . .	15%	not included
STAdata LLC, Kiev, Ukraine . . . . .	100%	not included
STADA (Thailand) Company, Ltd., Bangkok, Thailand . . . . .	60%	subsidiary
STADAvita GmbH, Bad Homburg, Germany . . . . .	100%	subsidiary

(1) Currently in the process of liquidation. Deconsolidation as of September 30, 2016.

Indirect investments of STADA Arzneimittel AG through BEPHA Beteiligungsgesellschaft für Pharmawerte mbH and through STADA Aesthetics AG:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA Aesthetics Italia S.R.L., Verona, Italy . . . . .	100%	not included
STADA Aesthetics UK Limited, West Wickham, United Kingdom . . . . .	100%	not included

Indirect investments of STADA Arzneimittel AG through STADA GmbH:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA Medical GmbH, Bad Vilbel, Germany . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Centrafarm Nederland B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Hemofarm A.D., Vrsac, Serbia . . . . .	100%	subsidiary
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam . . . . .	49%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium . . . . .	90%	subsidiary
STADA MENA DWC-LLC, Dubai, United Arab Emirates . . . . .	100%	subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and through Centrafarm Nederland B.V.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Centrafarm Services B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Healthypharm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
HTP Huisapotheek B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
Quatropharma Holding B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary
S.A. Eurogenerics N.V., Brussels, Belgium . . . . .	10%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V., through Centrafarm Nederland B.V. and through Quatropharma Holding B.V.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Centrafarm B.V., Etten-Leur, Netherlands . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA Import/Export International Ltd., Hong Kong, China . . . . .	51%	subsidiary
STADA Pharmaceuticals (Beijing) Ltd., Beijing, China . . . . .	83.35%	subsidiary
STADA Vietnam J.V. Co., Ltd., Ho Chi Minh City, Vietnam . . . . .	50%	subsidiary
Well Light Investment Services JSC, Ho Chi Minh City, Vietnam . . . . .	49%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd. and through Well Light Investment Services JSC:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Pymepharco Joint Stock Company, Tuy Hoa, Vietnam . . . . .	10%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and through Pymepharco JSC and/or indirect investments of STADA Arzneimittel AG through STADA Pharmaceuticals (Asia) Ltd., through Well Light Investment Services JSC and through Pymepharco JSC:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Dak Nong Pharmaceutical JSC, Dak Nong, Vietnam . . . . .	43%	not included
Phu Yen Export Import Pharmaceutical JSC, Phu Yen, Vietnam . . . . .	20%	not included
Quang Tri Pharmaceutical JSC, Quang Tri, Vietnam . . . . .	37.44%	not included

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Clonmel Healthcare Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
CNRD 2009 Ireland Ltd., Dublin, Ireland . . . . .	50%	not included
Crosspharma Ltd., Belfast, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Holdings Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary
STADA Financial Investments Ltd., Clonmel, Ireland . . . . .	100%	subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd., through Clonmel Healthcare Ltd. and through Genus Pharmaceuticals Holdings Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Britannia Pharmaceuticals Ltd., Reading, United Kingdom . . . . .	100%	subsidiary
Genus Pharmaceuticals Ltd., Huddersfield, United Kingdom . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd., through Clonmel Healthcare Ltd., through Genus Pharmaceuticals Holdings Ltd. and through Britannia Pharmaceuticals Ltd.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
Brituswip Ltd., Reading, United Kingdom . . . . .	50%	not included

Indirect investments of STADA Arzneimittel AG through AO Nizhpharm:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
000 Dialogfarma, Moscow, Russia . . . . .	50%	associate
Nizhpharm-Kazakhstan TOO DO, Almaty, Kazakhstan . . . . .	100%	subsidiary
OOO Aqualor, Moscow, Russia . . . . .	100%	subsidiary
OOO Hemofarm, Obninsk, Russia . . . . .	90%	subsidiary
OOO STADA CIS, Nizhny Novgorod, Russia . . . . .	100%	subsidiary
OOO STADA Marketing, Nizhny Novgorod, Russia . . . . .	90%	subsidiary
OOO STADA PharmDevelopment, Nizhny Novgorod, Russia . . . . .	100%	subsidiary
STADA M&D S.r.L., Bucharest, Romania . . . . .	100%	subsidiary
UAB STADA-Nizhpharm-Baltija, Vilnius, Lithuania . . . . .	100%	subsidiary
ZAO Makiz-Pharma, Moscow, Russia . . . . .	100%	subsidiary
ZAO Skopinpharm, Ryazanskaya obl., Russia . . . . .	100%	subsidiary

Indirect investments of STADA Arzneimittel AG through Ciclum Farma, Unipessoal, LDA:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA, LDA, Paco de Arcos, Portugal . . . . .	98%	not included

Indirect investments of STADA Arzneimittel AG through Laboratorio STADA, S.L.:

<u>Name of the company, registered office</u>	<u>Share in capital</u>	<u>Form of consolidation</u>
STADA Genericos, S.L., Barcelona, Spain . . . . .	100%	not included
STADA, LDA, Paco de Arcos, Portugal . . . . .	2%	not included

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Scope of consolidation (Continued)

Indirect investments of STADA Arzneimittel AG through STADA Service Holding B.V. and through Hemofarm A.D.:

Name of the company, registered office	Share in capital	Form of consolidation
Hemofarm Banja Luka d.o.o., Banja Luka, Bosnia-Herzegovina . . . . .	91.50%	subsidiary
Hemofarm Komerc d.o.o., Skopje, Macedonia <sup>(1)</sup> . . . . .	99.18%	not included
Hemofarm S.à.R.L., Constantine, Algeria . . . . .	40%	not included
Hemomont d.o.o., Podgorica, Montenegro . . . . .	71.02%	subsidiary
Hemopharm GmbH Pharmazeutisches Unternehmen, Bad Homburg, Germany	100%	subsidiary
Jinan Pharmaceuticals Co., Jinan, China . . . . .	35.50%	not included
STADA HEMOFARM S.R.L., Temeswar, Romania . . . . .	100%	subsidiary
STADA IT Solutions d.o.o., Belgrade, Serbia . . . . .	100%	subsidiary
Velefarm A.D., Belgrade, Serbia . . . . .	19.65%	not included
Vetfarm A.D., Belgrade, Serbia . . . . .	15%	not included

(1) Currently in the process of liquidation.

Indirect investments of STADA Arzneimittel AG through STADA UK Holdings Ltd. and through Pegach AG:

Name of the company, registered office	Share in capital	Form of consolidation
Spirig HealthCare AG, Egerkingen, Switzerland . . . . .	100%	subsidiary

The exemption rule stated in Section 264 (3) HGB was applied to ALIUD PHARMA GmbH, BEPHA Beteiligungsgesellschaft für Pharmawerte mbH, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH, STADA GmbH, STADA Medical GmbH, STADA CEE GmbH, STADApHarm GmbH, STADAvita GmbH, STADA Pharma International GmbH and Mobilat Produktions GmbH.

### 6. Principles for the consolidation of subsidiaries, joint ventures and associates

According to IFRS, business combinations are to be accounted for using the acquisition method. Assets, liabilities and contingent liabilities from business combinations are generally recognized in full - irrespective of the amount of the shareholding—as of the acquisition date at their fair values. If the historical costs of the subsidiary acquired exceed the proportionate newly measured net assets of the acquiree, STADA recognizes the positive difference as goodwill. After critical examination of the premises underlying the purchase price allocation, a negative difference is recognized through profit or loss in the period of the acquisition. In a business combination achieved in stages, it is necessary to carry out a revaluation through profit or loss of the shares previously held at the date control was achieved. The shares of non-controlling interests are reported in the amount of their share in net assets of the subsidiary.

The acquisition of additional shares from an existing controlling position in a subsidiary is recognized through other comprehensive income in accordance with IFRS 10, as it is a transaction between the equity investors.

Subsidiaries are generally included in the consolidated financial statements from the acquisition date to the end of control by the parent company. Receivables and financial liabilities, expenses and income, as well as earnings between the companies included in the consolidated financial statements are eliminated, intragroup value allowances and provisions are released. If these consolidation measures result in deviations between the IFRS carrying amounts and the tax base of assets and liabilities, deferred tax liabilities are recognized.

Shares in associates are recognized according to the equity method at historical cost on the date when joint control is established (joint ventures) or when significant influence was established (associate) and carried forward from this date in the amount of the proportionate share of earnings in the financial year. A positive difference determined during the purchase price allocation is recognized as goodwill in the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6. Principles for the consolidation of subsidiaries, joint ventures and associates (Continued)

carrying amount of the investment in the associate. A negative difference is recognized in income in the period of the acquisition in the results from associates. Profit and loss from transactions with associates is recognized in the consolidated financial statements only according to the share of minority interests.

If indications arise from the application of IAS 39 that the carrying amount determined using the equity method might be impaired, an impairment test is carried out and, if applicable, an impairment loss in the amount of the difference between the carrying amount and the recoverable amount is recognized. The recoverable amount is the higher of the fair value less cost to sell and the value in use of the shares in an associate.

### 7. Currency translation

The functional currency of STADA Arzneimittel AG is the euro and represents the reporting currency of the Group.

In the separate financial statements of companies included in the consolidated financial statements, foreign currency transactions are translated into the functional currency at the exchange rate applicable at the time of the transactions. On every reporting date, monetary items are translated using the closing rate and non-monetary items are translated using the transaction rate. Resulting currency translation differences are recognized in income as exchange gains or losses.

The translation of the companies included in the consolidated financial statements with a functional currency other than the euro into the Group functional currency is carried out using the closing rate method. Assets and liabilities are generally translated using the closing rate, while individual components of equity are translated using the historical rates at their respective dates of inflow from the Group's perspective. The income and expenses of the income statements are translated—and also the resulting translation of the annual results to be entered in equity—using the average exchange rate of the period.

Currency translation differences arising from the use of different foreign exchange rates are recognized through other comprehensive income in the equity in the “reserves for currency translation”. These reserves are released and recognized in income if Group companies leave the scope of consolidation.

The exchange rate development of currencies important to STADA to the euro can be seen in the following chart:

Significant currency relations in local currency to € 1	Closing rate on Dec. 31 in local currency			Average rate for the reporting period		
	2016	2015	± %	2016	2015	± %
Pound sterling . . . . .	0.85620	0.73390	+17%	0.81886	0.72604	+13%
Swiss franc . . . . .	1.07390	1.08350	– 1%	1.09018	1.06764	+2%
Russian ruble . . . . .	64.30000	80.67360	– 20%	74,22592	68.01339	+9%
Serbian dinar . . . . .	123.47230	121.62610	+2%	123,10467	120.75718	+2%
Ukrainian hryvnia . . . . .	28.42260	26.05560	+9%	28.28164	24.22888	+17%
US dollar . . . . .	1.05410	1.08870	– 3%	1.10660	1.10970	0%

### 8. Business combinations

In financial year 2016, the following significant business combinations in accordance with IFRS 3 occurred for which the preliminary purchase price allocation is described in more detail below.

In the first quarter of 2016, the purchase price allocation for the British Socialites group based in Chesterfield and acquired in the fourth quarter of 2015 was finalized. STADA achieved control upon conclusion of the contract on December 4, 2015. The purchase price for the acquisition amounted to GBP 21.0 million and was paid in cash or cash equivalents.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Business combinations (Continued)

In the context of the final purchase price allocation, goodwill in the amount of € 16.6 million resulted from this business combination and was broken down as follows:

#### in € million

Purchase price for 100% of the shares of the company approx. ....	29.5
Proportionate fair values of the assets and liabilities acquired approx. ....	12.9
<b>Goodwill</b> .....	<b>16.6</b>

Goodwill primarily resulted from an expansion of company presence and sales activities in the British market in the Branded Products segment.

For the assets acquired and liabilities assumed in the context of the business combination, the following fair values were recognized at the acquisition date:

#### Fair values in € million

Intangible assets .....	13.9
Other non-current assets .....	0.4
Inventories .....	2.8
Other current assets .....	1.5
<b>Assets</b> .....	<b>18.6</b>
Deferred tax liabilities .....	2.8
Other non-current liabilities .....	0.0
Trade payables .....	2.1
Other current financial liabilities .....	0.8
<b>Liabilities</b> .....	<b>5.7</b>

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

Sales generated in the Branded Products segment with the Socialites group amounted to around € 10.1 million in financial year 2016. The operating profit of this business combination adjusted for the effects of the purchase price allocation (around € 1.9 million) amounted to around € 0.8 million in the reporting year.

In order to strengthen the Generics segment, STADA and the STADA subsidiary BEPHA Beteiligungsgesellschaft für Pharmawerte mbH signed a contract for the purchase of the Argentinian generics producer Laboratorio Vannier in the fourth quarter of 2015. The purchase price amounted to USD 13.0 million (according to the foreign exchange rate at the date of acquisition approx. € 11.9 million) and was or will be paid in cash or cash equivalents. This includes certain conditional purchase price components, which are to be paid upon reaching a fixed earnings figure. This is guaranteed to reach a minimum of USD 1 million, with a maximum of USD 1.5 million. The seller was a private individual. The purchase was completed in the first quarter of 2016. STADA achieved control on January 4, 2016.

In the context of the purchase price allocation completed in the third quarter of 2016, goodwill in the amount of € 5.9 million resulted from this business combination and was broken down as follows:

#### in € million

Purchase price for 100% of the shares of the company approx. ....	11.9
Proportionate fair values of the assets and liabilities acquired approx. ....	6.0
<b>Goodwill</b> .....	<b>5.9</b>

Goodwill primarily resulted from the expansion of the international sales network in a country in which the STADA Group had not yet been represented with its own sales company in the Generics segment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Business combinations (Continued)

For the assets acquired and liabilities assumed in the context of the business combination, the following fair values were recognized at the acquisition date:

#### Fair values in € million

Intangible assets . . . . .	5.6
Other non-current assets . . . . .	0.2
Inventories and other current assets . . . . .	2.5
Cash and cash equivalents . . . . .	1.2
<b>Assets . . . . .</b>	<b><u>9.5</u></b>
Deferred tax liabilities . . . . .	1.9
Other non-current liabilities . . . . .	0.2
Other current financial liabilities . . . . .	1.4
<b>Liabilities . . . . .</b>	<b><u>3.5</u></b>

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

Sales generated in the Generics segment with Laboratorio Vannier amounted to around € 7.8 million in financial year 2016. The operating profit of this business combination, adjusted for the effects of the purchase price allocation (around € 0.2 million), amounted to around € 0.9 million in the reporting year.

In the first quarter of 2016, STADA acquired the British BSMW, based in Stockport. STADA achieved control upon conclusion of the contract on February 5, 2016. The purchase price for the acquisition amounted to GBP 3.4 million and was completely paid in cash or cash equivalents.

In the context of the final purchase price allocation in the first quarter of 2016, goodwill in the amount of € 3.5 million resulted from this business combination and was broken down as follows:

#### in € million

Purchase price for 100% of the shares of the company approx. . . . .	4.4
Proportionate fair values of the assets and liabilities acquired approx. . . . .	0.9
<b>Goodwill . . . . .</b>	<b>3.5</b>

Goodwill primarily resulted from an expansion of presence and sales activities in the British market in the Branded Products segment.

For the assets acquired and liabilities assumed in the context of the business combination, the following fair values were recognized at the acquisition date:

#### Fair values in € million

Property, plant and equipment . . . . .	0.1
Inventories . . . . .	0.3
Other current assets . . . . .	0.2
Cash and cash equivalents . . . . .	0.6
<b>Assets . . . . .</b>	<b><u>1.2</u></b>
Deferred tax liabilities . . . . .	0.0
Other current financial liabilities . . . . .	0.3
<b>Liabilities . . . . .</b>	<b><u>0.3</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Business combinations (Continued)

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

Sales generated in the Branded Products segment with BSMW amounted to around € 3.9 million in the eleven months since the initial consolidation. The operating profit of this business combination adjusted for the effects of the purchase price allocation (around € 0.2 million) amounted to around € 2.1 million in the reporting year. If STADA had acquired BSMW on January 1, 2016, sales of around € 4.2 million and operating profit, adjusted for effects from the purchase price allocation (around € 0.2 million), of around € 2.3 million would have been achieved on a straight-line basis in 2016.

In the third quarter of 2016, the Serbian subsidiary of STADA Arzneimittel AG, Hemofarm A.D., acquired a local product portfolio that primarily includes drugs for treating inflammations of the gastrointestinal tract, including the related processes.

The purchase price for the acquisition of the product portfolio including the associated sales structure amounted to a total of € 21.6 million and will be or has already been completely paid in cash or cash equivalents. The acquisition includes a portfolio of 50 product presentations for the sales in Serbia, Bosnia-Herzegovina, Macedonia and Montenegro, the corresponding IP rights and license agreements and a local production and packaging facilities. In addition, Hemofarm will take over 104 employees. STADA achieved control upon conclusion of the contract on August 1, 2016, as a result of which the acquired business has been consolidated within the STADA Group since August 1, 2016.

In the context of the final purchase price allocation, goodwill in the amount of € 0.4 million resulted from this business combination and was broken down as follows:

#### in € million

Purchase price for 100% of the shares of the company approx. ....	21.6
Proportionate fair values of the assets and liabilities acquired approx. ....	21.2
<b>Goodwill</b> .....	<b>0.4</b>

Goodwill resulted primarily from the expansion of STADA's presence and sales activities in the Branded Products segment, particularly in the Serbian market.

For the assets acquired and liabilities assumed in the context of the business combination, the following fair values were recognized at the acquisition date:

#### Fair values in € million

Intangible assets .....	18.4
Property, plant and equipment .....	2.7
Deferred tax assets .....	0.1
<b>Assets</b> .....	<b><u>21.2</u></b>
<b>Liabilities</b> .....	<b><u>0.0</u></b>

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

The acquired sales amounted to approx. € 3.5 million in the five months after initial consolidation. The operating profit of this business combination adjusted for the effects of the purchase price allocation (around € 0.7 million) amounted to around € 1.5 million in the reporting year. If STADA had acquired the Serbian product portfolio on January 1, 2016, sales of around € 8.4 million and operating profit, adjusted for effects from the purchase price allocation (around € 1.7 million), of around € 3.6 million would have been achieved on a straight-line basis in 2016.

During the negotiations with the seller of the rights for the product portfolio, Hemofarm A.D. acquired inventories for a purchase price of € 1.9 million in May 2016. This will be settled entirely in cash. The



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Business combinations (Continued)

corresponding obligation was recognized as trade payables. Since the acquisition date, the acquired inventories have been billed to third-party customers.

In the fourth quarter of 2016, STADA acquired the British Natures Aid, based in Preston. STADA achieved control upon conclusion of the contract on November 21, 2016. The purchase price for the acquisition amounted to GBP 16.8 million and was completely paid in cash or cash equivalents.

In the context of the final purchase price allocation, goodwill in the amount of € 4.7 million resulted from this business combination and was broken down as follows:

#### in € million

Purchase price for 100% of the shares of the company approx. ....	19.4
Proportionate fair values of the assets and liabilities acquired approx. ....	14.7
<b>Goodwill</b> .....	<b>4.7</b>

Goodwill primarily resulted from an expansion of the presence and sales activities in the Branded products segment, particularly within the nutritional supplements area.

For the assets acquired and liabilities assumed in the context of the business combination, the following fair values were recognized at the acquisition date:

#### Fair values in € million

Intangible assets .....	12.3
Property, plant and equipment .....	1.1
Inventories .....	1.7
Trade receivables .....	1.0
Other noncurrent assets .....	0.2
Cash and cash equivalents .....	2.6
<b>Assets</b> .....	<b>18.9</b>
Deferred tax liabilities .....	2.4
Other current liabilities .....	1.8
<b>Liabilities</b> .....	<b>4.2</b>

Fair values were determined on the basis of observable market prices. To the extent that market prices could not be determined, income or cost-oriented procedures were used for the evaluation of acquired assets and liabilities assumed.

Sales generated in the Branded Products segment with Natures Aid amounted to around € 1.2 million in the first month and a half of 2016 since the initial consolidation. The operating profit of this business combination adjusted for the effects of the purchase price allocation (around € 0.2 million) amounted to around € 0.3 million in the reporting year. If STADA had acquired British branded product company on January 1, 2016, sales of around € 9.9 million and operating profit, adjusted for effects from the purchase price allocation (around € 1.4 million), of around € 2.0 million would have been achieved on a straight-line basis in 2016.

As part of the negotiations with the seller of the company, parallel to the agreed merger, Natures Aid acquired the building belonging to the production location and the site at a purchase GBP 1.7 million. The purchase price was fully paid by the company in cash and cash equivalents.

The Serbian subsidiary of STADA Arzneimittel AG, Hemofarm A.D., acquired Serbian pharmaceutical wholesaler Velefarm d.o.o. Beograd, based in Belgrade, Serbia, to strengthen the business activities on the Serbian market. The acquisition was completed with the aim of vertical integration in the Serbian market. The purchase price for the acquisition will total a maximum of € 1.0 million and will be or has already been fully paid in cash or cash equivalents. The purchase was completed on January 6, 2017 after the competition authorities approved the purchase contract signed in October 2016. The purchase price allocation is not yet finalized. In financial year 2016, the company achieved sales of € 33.6 million and a

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Business combinations (Continued)

profit of approximately € 0.1 million. Total assets amounted to approximately € 30.2 million at the end of financial year 2016, which primarily related to the net current assets. Business relationships with Serbian Hemofarm A.D. had already existed before the acquisition. In financial year 2016, these sales amounted to € 8.9 million.

### 9. Accounting policies

STADA's consolidated financial statements are based on uniform financial reporting policies. The basis for these are the accounting requirements which are mandatory for all companies included in the consolidated financial statements and which are described in more detail below.

**Sales** are recognized when goods have been delivered or services rendered, provided that it is probable that measurable economic benefits will flow to the entity and that the significant risks and rewards of ownership have been transferred to the buyer. It must also be possible to reliably measure the Company's own costs incurred or to be incurred.

Sales are recognized before taxes and after deduction of revenue reductions (rebates or discounts) at fair value of the consideration received or receivable. Expenses from the creation of provisions for warranties are deducted from sales on the basis of estimated amounts. The estimates are based on experience regarding amounts used in the past. The estimated expense from the creation of provisions is determined as a percentage of sales. Discounts to health insurance organizations are also recognized with a reduction on sales based on the respective contract in force.

Income and expenses from the same transactions are generally accounted in the same period. Expenses related to accruals for future revenue reductions are thus recorded in the period in which the sales are realized.

**Cost of sales** includes the costs of conversion of the products sold and the purchase price of commercial goods sold or given free of charge. The expense is recognized in the period in which the associated income is realized. In addition, cost of sales also includes costs directly attributable to commercial goods (e.g. cost of materials and personnel expenses), overheads (e.g. depreciation of production equipment and regulatory drug approvals and licenses) as well as valuation allowances of excess or obsolete inventories.

**Research expenses** are costs that are incurred in relation to the research activity of a company that aims to provide new scientific or technical findings. The product portfolio of the STADA Group continues to focus on products that do not require the Group to conduct its own research. As in previous years, no research expenses were incurred in financial year 2016.

**Development costs** consist of expenses involved initially in the technical implementation of theoretical discoveries in production and production processes and ultimately their commercial implementation.

As a rule, the objective of a development process at STADA is to obtain national or multinational regulatory drug approval. Development costs relative to approvals for new drugs obtained by STADA result in capitalization as intangible assets if all the following preconditions are met:

- It is technically possible to complete the asset (generally, achieve regulatory drug approval), enabling it to become available for use or sale.
- The intention and ability, as well as the necessary resources, exist to complete the asset and to use or sell it in the future.
- The intangible asset provides the Group with a future economic benefit.
- It must be possible to reliably determine the development costs of the intangible asset.

STADA immediately recognizes development costs not eligible for capitalization as expense in the periods in which they are incurred. These include expenses for technical and regulatory maintenance of products marketed.

**Interest income** is reported in the income statement as a component of financial income. In this regard, both interest income and interest expenses for all financial instruments measured at amortized cost as well as interest-bearing financial assets classified as available for sale are recognized on the basis of the effective interest rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

Dividends received from companies not included in the consolidated financial statements are disclosed within the investment income. This shall be recognized when the shareholder's right to receive payment is established.

**Income taxes** include actual taxes on income as well as deferred tax liabilities. The tax receivables and liabilities recognized in the balance sheet include demands or liabilities for income taxes in Germany and outside Germany from financial year 2016 as well as from previous years, if applicable. The tax receivables and liabilities are calculated on the basis of tax rates effective as of the reporting date or known and already concluded for the future in the countries in which the taxable profit is generated.

Deferred tax liabilities are created for temporary differences between the tax base of the assets or liabilities and their valuation rate in the IFRS financial statements as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that a taxable profit will result against which the temporary difference can be utilized. Deferred tax liabilities are recognized for temporary differences taxable in the future. STADA determines deferred taxes on the basis of tax rates applicable at the reporting date or those that have already been resolved and communicated for the future. Deferred tax receivables and liabilities are offset if these relate to the same taxation authority.

The tax expense in the period is recognized in the income statement, provided the changes in value that are recognized directly in equity are not affected. To the extent that there are changes in the tax rate with an effect on deferred taxes, the resulting effects are recognized in the period in which they arise.

**Goodwill** is not amortized over the period of useful life. Instead, an impairment test is performed at least once per year (impairment-only approach). For this purpose, goodwill is allocated to cash-generating units aggregated into operating segments, where a cash-generating unit corresponds to one of the two operating segments of the STADA Group for the purpose of an impairment test of goodwill.

STADA carries out impairment tests for capitalized goodwill at least once a year. Additional reviews also take place if indications of impairment become apparent. During the impairment test, the carrying amount of each cash-generating unit is compared with its recoverable amount. The carrying amount of a cash-generating unit comprises the carrying amounts of all assets and liabilities attributable to the valuation unit including the carrying amount of goodwill to be tested. If the recoverable amount of a cash-generating unit is lower than the carrying amount, an impairment loss results. The recoverable amount is generally defined as the higher of the fair value less costs to sell, if measurable, and the value in use of the cash-generating unit. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. Significant assumptions made in order to determine the value in use include assumptions regarding sales development, regulatory conditions, investments, the discount rate, currency relations as well as the growth rate. These assumptions are made individually according to the individual situations for every cash-generating unit and are partly based on internally determined assumptions that both reflect past experience and include external market data.

**Other intangible assets** with determinable useful lives are recognized at cost and amortized on a straight-line basis over the period of their useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the intended manner. The useful life of regulatory drug approvals, trademarks, licenses, dossiers with data for drug approvals or in preparation of drug approvals, software, concessions, property rights and similar rights is between three and 30 years. If on the reporting date, there are indications that these assets are impaired, the recoverable amount of the asset is re-evaluated and impairment losses are recognized according to the difference to the carrying amount. If the reasons for recognizing an impairment loss cease to exist, corresponding write-ups are carried out up to a maximum of the amortized cost.

Intangible assets with indeterminable useful lives are not amortized. In the context of annual impairment tests and additionally in all cases where there are indications of impairment, the recoverable amounts of these assets are compared with their carrying amounts and if necessary, an impairment loss is recognized. For this purpose, the fair value of the asset less costs to sell was determined using the relief from royalty method. At STADA, this affects the umbrella brand Hemofarm capitalized in the context of the acquisition

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

of the Hemofarm group, the umbrella brand Pymepharco capitalized in the context of achieving control over Pymepharco, and the umbrella brand Vannier capitalized in the context of the acquisition of Laboratorio Vannier. Intangible assets that are not yet available for use are also generally put through annual impairment tests. Furthermore, in each reporting period, an audit is carried out to check whether the reasons for recognizing an indefinite useful life continue to exist.

Internal development costs are capitalized according to the criteria of IAS 38. Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs, external services and directly allocable overheads. Internally created intangible assets are amortized on a straight-line basis over their useful life, generally 20 years.

**Property, plant and equipment** is reported at cost less depreciation and any impairment losses plus write-ups. Depreciation shall begin when the asset is available for use and is accordingly in the condition necessary for it to be capable of operating. Subsequent acquisition costs are capitalized. Capitalization requires that a future economic benefit will flow to the company and that the cost of the asset can be reliably measured. Expenses for repairs and maintenance that do not represent significant replacement investments are recognized as expenses in the financial year in which they are incurred.

Items of property, plant and equipment are depreciated according to their useful life using the straight-line method. The depreciation period may be up to 50 years in the case of buildings, eight to 20 years in the case of technical facilities and three to 14 years for other plant and office furniture and equipment. The component approach, according to which every significant component of property, plant and equipment with different useful lives must be depreciated separately, is not applied at STADA due to a lack of relevance. To the extent necessary, impairment losses are recognized pursuant to IAS 36; these are reversed if the reasons for the original recognition of an impairment loss no longer exist.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalized as part of the cost of the intangible asset and property, plant and equipment. Other borrowing costs are not capitalized. Where acquisitions are made in a currency other than the respective functional currency, subsequent changes in exchange rates have no impact on the recording of original historical costs.

**Impairments on other intangible assets and property, plant and equipment** exist when the recoverable amount of an asset is lower than its carrying amount. At each reporting date, STADA assesses whether indications for impairment are apparent. If this is the case, e.g. if certain defined critical values are exceeded, the asset's recoverable amount is determined. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, where the value in use is calculated with a discounted cash flow method. Under this procedure, future cash flows of intangible assets are discounted at the weighted average cost of capital, which is determined individually for two operating segments with specific parameters. Expenses arising from impairments are reported under "Other expenses".

For the purpose of impairment tests of other intangible assets and property, plant and equipment, cash-generating units within the STADA Group are defined at the level of individual assets within the reportable segments of Branded Products and Generics.

If the reasons for an impairment no longer exist, the corresponding write-ups are carried out up to a maximum of the carrying amounts determined at amortized cost. Income from write-ups is reported under the item "Other income".

**Leases** are classified either as operating leases or as finance leases, depending on whether the significant risks and rewards of ownership remain with the lessor or with the lessee. The lease is not recognized in the lessee's balance sheet in case of operating leases. STADA records the lease payments for these leases through profit or loss over the lease term. Assets from finance leases are, on initial recognition, recognized at the lower of the fair value of the lease and the present value of minimum lease payments, and are depreciated according to their estimated useful lives or shorter contractual period. An amount is reported as lease liability, when, on initial recognition, it corresponds to the lease's carrying amount and is extinguished and carried forward in subsequent periods with a constant effective interest rate. The interest that is part of the lease installment is recognized as an expense.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

In addition, in case of sale and leaseback transactions that represent a finance lease, any surplus of sales proceeds over the carrying amount is deferred and recognized in the income statement over the lease term.

The total value of capitalized leases is not of material significance for STADA when compared with the total volume of fixed assets.

Under **financial assets**, STADA recognizes shares in non-consolidated, affiliated companies and other investments. Shares in associated companies and other investments are classified as available-for-sale financial assets and are generally reported at fair value with no effect on income. If no quoted market prices in an active market are available to measure these shares and their fair value therefore cannot be determined reliably, they are measured at amortized cost. If any objective indications of impairment are determined, these are quantified by means of an impairment test and recognized in income in accordance with IAS 39.

**Inventories** include such assets that are held for sale in the ordinary course of business (finished goods) that are in the process of production for such sale (work in progress), and that are consumed in the production process or in the rendering of services (materials and supplies). Inventories are measured at the lower of historical costs or costs of sales and net realizable value. Historical costs or costs of sales are determined based on weighted average costs. Costs of sales include both costs that are directly incurred in production and overheads that can be allocated to the production process, including reasonable depreciation on production facilities. Financing costs are not included, but are instead recognized as an expense in the period in which they occur. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Financial assets** can be broken down into the following categories in accordance with IAS 39: Loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are accounted for and measured pursuant to IAS 39. Accordingly, financial assets are, as a rule, initially recognized at fair value. In addition, for financial assets that are subsequently measured at amortized cost, transaction costs directly attributable to the acquisition are to be taken into account. Different measurement policies apply for subsequent measurement in accordance with the applicable categories for financial assets pursuant to IAS 39.

**Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are allocated to current assets to the extent that they are due for settlement within twelve months after the reporting date. STADA reports loans and receivables under "Trade accounts receivable", "Other financial assets" and "Cash and cash equivalents". They are measured at amortized cost using the effective interest method.

STADA reports receivables from derivatives which, if applicable, may also be part of hedge accounting, as **financial assets at fair value through profit or loss**. Assets in this category are reported under the "Other financial assets" item. They are measured at fair value. If these assets do not have a quoted market price in an active market, fair value is determined with appropriate measurement models. This includes the application of discounted cash flow methods. These are largely based on input parameters observable in the market. Changes in the fair values are recognized in income at the time of the increase or impairment in value.

**Held-to-maturity financial investments** include non-derivative assets with fixed or determinable payments and a fixed term that STADA intends to hold to maturity. They are measured at amortized cost using the effective interest method. STADA reports these assets in financial assets under the item "Other financial assets".

**Available-for-sale financial assets** are non-derivative assets that are not allocated to any of the above categories. In particular, they comprise, in addition to shares in affiliated companies and other investments included in financial assets, equity securities and are recognized under "Other financial assets". They are measured at fair value, with changes reported under "Provisions available for sale" directly in equity with no effect on profit or loss. These measurement results are reclassified through profit and loss upon sale or valuation allowance of these assets. There must be objective evidence that there is a significant or continuing decrease in fair value below historical cost. Published market price quotations usually can be used for determining fair value.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

**Trade accounts receivable** are measured at amortized cost less impairments using the effective interest rate method. Impairments are made in the form of individual impairments and general individual impairments for specific defaults and expected default risks resulting from the insolvency of customers. To quantify the expected default risk, STADA determines the expected future cash flows from receivables grouped by debtor. To this end, the maturity structures of net receivables and experience relating to derecognition of receivables in the past, the creditworthiness of the customers as well as changes in payment conditions are taken into account. In addition, a trade credit insurance that covers part of the loss in case of default is to be taken into consideration for various Group companies. The required impairment determined reduces the assets' carrying amounts through recognition of an impairment account.

The loss is recognized in profit and loss under "Other expenses". Bad debts are derecognized against the impairment account. Subsequent cash receipts for receivables already derecognized are presented net of expenses.

**Non-current assets and disposal groups held for sale** are classified as held for sale, if the related carrying amount will be recovered principally through a sale transaction rather than through continuing use, and if the sale is regarded as highly probable. Measurement of these assets is based on the lower of carrying amount and fair value less costs to sell. In addition to assets held of sale, associated liabilities are also reported separately in the balance sheet.

**Cash and cash equivalents** include cash and call deposits as well as current and highly liquid financial investments with a maximum term of 90 days from the purchase date. These can be converted to cash immediately and are subject only to minor price fluctuation risks. They are measured at amortized cost. Cash and cash equivalents are reported in accordance with their definition as financial resources in IAS 7.

Other assets, which are not based on any contractual rights involving the direct or indirect exchange of cash, are reported under the item **Other assets**.

STADA maintains defined benefit plans in various countries, according to which the amount of pension benefits depends on the employees' pensionable remuneration and the length of their service or which contain guarantees not permitting recognition as defined contribution plan. **Pension obligations** are measured in accordance with actuarial principles using the projected unit credit method. The pension provisions recognized in the balance sheet correspond to the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets adjusted for the effect resulting from any effect of limiting the benefit asset. In addition to earned pensions and entitlements, the calculation also includes future salary and pension increases. For German Group companies, pension obligations are calculated based on the biometric accounting principles of the Heubeck 2005G mortality tables. Outside Germany, country-specific mortality tables are used. Future pension benefits are subject to individual pension agreements. The discount rate shall be based on long-term rates of return on high quality corporate bonds with fixed interest rates at the reporting date. In countries where there is no liquid market in such corporate bonds, the discount rate is determined on the basis of market yields on government bonds.

The standard IAS 19 only permits actuarial gains and losses to be recognized with no effect on income. It differentiates between gains and losses due to changes in demographic assumptions, due to changes in financial assumptions as well as due to experience-based amendments. They are recognized directly in equity with no effect on income in the period in which they occur ("other comprehensive income, OCI"). The relevant amounts are reported separately in the consolidated statement of comprehensive income. For the calculation of the portion of the interest income on plan assets recognized through profit or loss, the standard IAS 19 requires the application of the discount rate underlying the obligation. The remainder of the actual income from plan assets is to be recognized directly in other comprehensive income with no effect on profit or loss. The current service cost is recognized in staff costs of the individual functional areas. All past service cost that arises in the financial year shall be recognized immediately through profit or loss.

Various Group companies additionally grant their employees defined contribution plans. Here, Group companies pay defined contributions to independent institutions due to legal or contractual requirements



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

or on a voluntary basis; liabilities beyond this do not exist. Contributions to be paid for the respective plans are recognized as expense in the respective period in the relevant functional areas.

The **other non-current provisions** contain anniversary provisions as other long-term employee benefits. Commitments to anniversary payments are accounted in accordance with the guidelines in IAS 19 as other long-term employee benefits. In contrast to pension provisions, actuarial gains and losses are not recognized without an effect on the income statement. Such potential gains and losses are immediately reported as income or expenditure in the relevant functional area. Furthermore, there is a working time accounts plan that is accounted for in the same way as commitments to anniversary payments.

**Other provisions** are made by STADA if there are current legal or constructive obligations to third parties arising from past events that will probably lead to an outflow of resources embodying economic benefits that can be reliably determined. An outflow of assets embodying economic benefits is considered as probable if it is more likely than not. Other provisions are recognized in an amount that, taking into account all recognizable risks, offers the best possible estimate of expenditures necessary to fulfill the obligations. Any existing reimbursement claims by third parties are not netted with other provisions. Expenses from the creation of provisions are allocated to functional costs according to where they arise. If changes in estimates result in a reduction of the obligation, the other provisions are reversed on a pro rata basis and recognized through profit and loss under the item where the original expense was recognized.

STADA reports all other provisions as current financial liabilities because a settlement date within twelve months of the reporting date is expected. The amounts recognized are not discounted. Liabilities incurred due to outstanding accounts or obligations to personnel and taxation authorities, as well as other liabilities are not reported as provisions, but under "Trade payable" or "Other liabilities".

Differentiated from provisions, there are contingent liabilities for **possible obligations** based on past events but which will not become manifest until the occurrence of one or more uncertain future events not under STADA's control. In addition, there are also contingent liabilities for current obligations, for which however the associated outflow of resources is not considered probable or the amount of the obligation cannot be adequately estimated. In accordance with IAS 37, such contingent liabilities are not recognized.

**Financial liabilities** are measured on initial recognition at fair value plus transaction costs directly attributable to the acquisition. For financial liabilities that subsequently continue to be measured at fair value, any transaction costs are recognized as an expense in the period in which they occur. This relates to the accounting of derivative financial instruments with negative market values that are not part of an effective hedging relationship and allocated to the category "at fair value through profit or loss" in accordance with IAS 39. STADA reports these financial liabilities in the "Other financial liabilities" item. Here, those derivative financial instruments are also included which serve to hedge interest rate and currency risks resulting from operating activities, financial transactions and investments, and which are also measured at fair value in accordance with the regulations of IAS 39 on hedge accounting. Unless market prices are available, fair value is determined with measurement models based on discounted cash flow models.

**Derivative financial instruments** exist at STADA in the context of derivatives measured at fair value through profit or loss as well as in the context of derivative hedging instruments. In each case, depending on whether the market value of the derivatives is positive or negative, they are recognized under the item "Other financial assets" or "Other financial liabilities" (see financial reporting policies for financial assets and financial liabilities). Cash flow hedges, fair value hedges and hedges of net investments in a foreign operation can generally be recognized as derivative hedging instruments in the context of hedge accounting in accordance with IAS 39.

At STADA, cash flow hedges are used to hedge against fluctuations of cash flows associated with an accounted asset or an accounted financial liability or a highly probable planned transaction. Changes in the fair value of these hedging instruments are recognized with no effect on income in the amount of the effective part of the hedging relationship directly in equity under "Provisions for cash flow hedges". A transfer to the income statement takes place in the period when the underlying hedged item becomes effective. The ineffective part of the changes in value is, however, recognized directly in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Accounting policies (Continued)

In the context of fair value hedges, the risk of a change in fair value of accounted assets or accounted liabilities or fixed off balance liabilities is hedged. Changes in the fair value of these hedging transactions are recorded in profit and loss like changes in the fair value of the underlying hedged items. If the requirements for hedge accounting are no longer met, the carrying amounts of the previously hedged items are adjusted on the basis of their remaining terms. Hedges of net investments in a foreign operation are treated according to the same accounting policies as cash flow hedges.

STADA regularly reviews the effectiveness of the hedging relationships as a prerequisite for hedge accounting pursuant to IAS 39. A hedging relationship is in general considered to be effective, if changes in fair value of the hedging transaction are both prospectively and retrospectively within a range of 80% to 125% of the offsetting changes in fair value of the hedged item.

STADA measures all other financial liabilities, in particular trade payable as well as financial liabilities, at amortized cost using the effective interest method.

STADA has so far not made use of the option to designate financial liabilities on initial recognition as financial liabilities to be recognized at fair value through profit or loss.

Other financial liabilities, which are not based on any contractual rights involving the direct or indirect exchange of cash, are reported under the item "Other liabilities".

At STADA, share-based payments are used as long-term oriented remuneration components in the context of **performance-related remuneration** of Executive Board members and are paid in cash. These payments are recognized at the fair value of the liability in accordance with IFRS 2. Until the liability is settled, the fair value of the liability is to be reclassified on each reporting date and on the settlement date, and all changes in the fair value are to be recognized through profit and loss. STADA uses the Monte Carlo model to determine the fair value of share-based payments. The fair value of share-based payments to the Executive Board from deferrals are recognized under the item "Other liabilities".

### 10. Estimates, assumptions and discretion in the application of accounting principles

The presentation of the net assets, financial position and results of operations in the consolidated Group financial statement is determined by recognition and valuation methods. To a certain extent, STADA makes estimates and assumptions relating to the future that are based on past experience as well as other factors that are considered to be appropriate in the particular circumstances. Although the estimates and assumptions are constantly re-evaluated, estimates derived in this way may differ from actual circumstances. The significant estimates, accounting judgments and related assumptions for the accounting issues concerned are detailed below.

As part of purchase price allocations in business combinations, goodwill is the difference between the acquired net assets evaluated according to IFRS 3 and the consideration transferred plus the fair value of the previously held shares and the amount recognized of non-controlling shareholders. Various valuation methods are used for this that are primarily based on estimates and assumptions.

STADA carries out an impairment test for capitalized goodwill at least once a year. The discounted future cash flows of the cash-generating units, aggregated into operating segments, which are based on certain assumptions, are to be determined for this purpose. The discounted cash flow method is used to determine the value in use, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years based on approved budgets. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. The budget values for future financial years, which are subject to some uncertainty due to unforeseeable future legal developments and developments in the health care market, as well as the parameters determined in the context of current market information but also as a best possible estimate mean that the assessment of impairment may differ from actual circumstances, and despite good forecasts in the reporting year an impairment requirement may be necessary in subsequent years.

For items of property plant and equipment and intangible assets, the expected useful lives and associated amortization or depreciation expenses are determined on the basis of the expectations and assessments of management. If the actual useful life is less than the expected useful life, the amount of depreciation or

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 10. Estimates, assumptions and discretion in the application of accounting principles (Continued)

amortization is adjusted accordingly. As part of the determination of impairment losses on fixed assets, estimates relating to the cause, timing and amount of the impairments are also made. Particularly in the context of impairment tests for yet unused approvals, which are reported as advance payments, the growth rates applied for the present value test as well as the long-term price and cost development of active pharmaceutical ingredients are based on best possible estimates. This also applies to the impairment tests of other intangible assets with indefinite useful lives.

Development costs are capitalized based on the assessment of whether the capitalization requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future.

STADA makes valuation allowances on receivables in order to anticipate losses expected in relation to insolvency of customers. The maturity structure of the net receivables and past experience in relation to bad debts as well as the customers' credit-worthiness are used as the criteria for evaluating the appropriateness of the valuation allowances. This does not, however, exclude the possibility that the actual derecognitions will exceed the expected valuation allowances due to a significant worsening in the financial position of the customer. Accounting judgments and estimates regarding the assessment of the value of receivables relate particularly to impaired receivables from debtors in CEE countries.

STADA operates in various countries and is obliged to pay respective income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred tax liabilities in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain balance sheet item according to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on current and deferred taxes and thus on the net assets, financial position and results of operations of the Group in the respective period. Furthermore, increasing importance within the STADA Group is being allotted to a comprehensive tax transfer-pricing model for the remuneration of intragroup services. Possible risks of non-recognition of these transfer prices for tax purposes are limited by the introduction of appropriate communication methods and an overarching definition of transfer pricing in the form of a Group guideline.

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows, which are already fixed or calculated by means of the current yield curve using so-called "forward rates", are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the reporting date.

The amount of pension obligations from defined benefit plans is calculated using actuarial methods. This procedure is based upon assumptions, among other things, regarding the discount rate, life expectancy and future salary and pension increases. Changes to these assumptions can significantly influence the amount of future pension costs.

The creation of other provisions is based on the assessment of management regarding the probability and amount of an outflow of resources. STADA creates provisions if there is a present external obligation and a probable outflow of resources, i.e. if it is more likely to occur than not. Provisions in relation to pending legal disputes are created based on how STADA estimates the prospects of success of these methods. The determination of provisions for damages is also associated with substantial estimates and can change due to new information. The same applies for the recognition of the amount of contingent liabilities.

Expenses from the creation of provisions for warranties are considered in sales and charged against income. Estimated values based on past experience are used for this purpose. This means that the actual expenses for warranties may differ from the estimate and sales would accordingly turn out to be higher or lower. The same applies for the consideration of discounts (e.g. discounts to health insurance organizations) prescribed by law and due to other regulatory requirements. These are recognized with a reduction on sales based on the respective underlying contract with an estimated amount in expectation of probable sales.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Notes to the Consolidated Income Statement

#### 11. Sales

Sales at STADA primarily resulted from the supply of products and, to a much lesser extent, from license revenues. For information on the reporting of sales, please refer to details included in Financial Reporting Policies.

In 2016, the increase in sales compared to 2015 was primarily based on strong sales development in the markets Germany, Italy and Vietnam. This development was primarily attributable to the strong growth in the German Branded Products segment as well as the sales increase in the two core segments in the Italian and Vietnamese markets. Exchange rate effects and portfolio changes had a total influence of € 28.0 million on sales in the reporting year. For information on how sales are broken down according to segments, please refer to the “Segment reporting” in Note 42.

#### 12. Cost of sales

Cost of sales is divided into the following items:

in € 000s	2016	2015
Material expenses . . . . .	883,480	874,066
Impairment, depreciation and amortization . . . . .	100,976	101,497
Expenses from inventory write-downs . . . . .	28,207	36,545
Remaining cost of sales . . . . .	92,650	89,601
<b>Total . . . . .</b>	<b><u>1,105,313</u></b>	<b><u>1,101,709</u></b>

Impairment, depreciation and amortization in the amount of € 101.0 million (previous year: € 101.5 million) mainly includes amortization on intangible assets, the ownership of which represents a necessary condition for the marketing of the products manufactured—in particular drug approvals.

Expenses from inventory write-downs included inventories written down to net realizable value offset with reversals. The reversals amounted to € 7.7 million in financial year 2016 (previous year: € 7.2 million).

#### 13. Selling expenses

In addition to the costs for sales departments and sales force, selling expenses also comprise the costs for advertising and marketing activities including samples for doctors. They also include all costs for logistics that occur for completed final products. Discounts in the form of free retail packages, so-called discounts in kind,—if possible under the legal regulations in a national market—are not included. The resulting expenses are reported as a part of cost of sales.

In the reporting year, marketing expenses in the amount of € 210.4 million (previous year: € 210.0 million) corresponded to a share of 43% in selling expenses (previous year: 44%). In addition, selling expenses included depreciation in the amount of € 6.9 million (previous year: € 7.1 million).

#### 14. General and administrative expenses

Personnel and material costs of service and administrative units are reported under general and administrative expenses, unless they have been charged to other functional areas as internal services.

In 2016, the general and administrative expenses included depreciation in the amount of € 7.0 million (previous year: € 7.9 million).

General and administrative expenses increased in the reporting year by a total of € 4.3 million. The increase primarily resulted from the subsidiaries consolidated for the first time in the reporting year or at the end of the previous year.

#### 15. Research and development costs

For information on the composition of research and development costs, please refer to the details included in Financial Reporting Policies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15. Research and development costs (Continued)

In financial year 2016, research and development costs increased by € 0.1 million compared to the previous year.

The research and development costs include depreciation in the amount of € 2.3 million (previous year: € 2.1 million). Development costs for new products in the amount of € 28.4 million (previous year: € 26.1 million) were capitalized in financial year 2016 (see the note on the item “Intangible assets”).

### 16. Other income

Other income is divided into the following items:

in € 000s	2016	2015
Income from write-ups . . . . .	3	—
Income from disposals . . . . .	—	2,317
Remaining other income . . . . .	19,276	17,715
<b>Total . . . . .</b>	<b><u>19,279</u></b>	<b><u>20,032</u></b>

The remaining other income includes a milestone payment received in the Branded Products segment in the United Kingdom, income from insurance compensation, income from damage claims payments as well as other other income not directly associated with functional costs that comprise many immaterial individual items in the Group companies.

Furthermore, the income from disposals mainly resulted from the deconsolidation of the French subsidiary Laboratoires d'études et de recherches en oligo éléments thérapie SA in the previous year.

### 17. Other expenses

Other expenses are broken down as follows:

in € 000s	2016	2015
Expenses from valuation allowances on accounts receivable . . . . .	5,972	9,367
Currency translation expenses . . . . .	9,379	19,549
Impairment losses on non-current assets excluding goodwill . . . . .	65,480	32,790
Impairment losses on goodwill . . . . .	—	410
Remaining other expenses . . . . .	58,102	21,593
<b>Total . . . . .</b>	<b><u>138,933</u></b>	<b><u>83,709</u></b>

Expenses for valuation allowances on accounts receivable were reported offset with the corresponding income from their reversal.

Other expenses include impairment losses in the amount of € 65.5 million (previous year: € 32.8 million) that exclusively relate to impairment losses on non-current assets excluding goodwill in the reporting year. In the previous year, impairments to goodwill resulted from an impairment for the Asia/Pacific & MENA region. The increase in comparison with the previous year was primarily due to reorganization decisions in connection with the adapted corporate strategy. These impairment losses were considered by STADA as a special item of financial year 2016.

The item also included net currency translation expenses in the amount of € 9.4 million in the reporting year (previous year: € 19.5 million). This development was particularly attributable to the strong devaluation of the major currencies in the CIS region and the resulting currency translation expenses, reported as special items.

Within remaining other expenses, personnel expenses are recognized in the amount of € 24.8 million (previous year: € 4.4 million). The increase in comparison with the same period of the previous year was particularly due to a severance payment for the former Chairman of the Executive Board as well as further personnel expenses in connection with the merging of the German sales companies. Furthermore,



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 17. Other expenses (Continued)

remaining other expenses also increased due to the termination of a distribution agreement with the Belgian sales partner OMEGA and the associated damage claim payment.

The item other expenses includes expenses in the amount of € 21.6 million in connection with the termination of substantial parts of the aesthetics business. These expenses particularly resulted from impairments to intangible assets, impairments to financial assets, a payment for the termination of the distribution agreement, the reduction in inventories, outstanding rental payments and severance payments.

### 18. Financial result

The **result from investments measured at equity** in financial year 2016 relates to the companies BIOCEUTICALS Arzneimittel AG, Pharm Ortho Pedic SAS and AELIA SAS as well as Dialogfarma LLC since last year, and are accounted for using the equity method.

**Investment income** primarily relates to profit distributions from companies not included in the consolidated financial statements.

**Financial income and financial expenses** are composed of the interest result and other financial income and other financial expenses.

The interest result developed as follows:

in € 000s	2016	2015
Interest income . . . . .	2,716	1,142
Interest expense . . . . .	52,891	65,576
<b>Interest result . . . . .</b>	<b>50,175</b>	<b>64,434</b>
thereof: from financial instruments of the valuation categories in accordance with IAS 39:		
• Loans and receivables . . . . .	2,716	1,142
• Financial assets and liabilities at fair value through profit and loss . . . . .	- 12,711	- 18,213
• Held-to-maturity investments . . . . .	—	—
• “Available-for-sale” financial assets . . . . .	—	—
• Financial liabilities measured at amortized costs . . . . .	- 39,120	- 46,349

In addition, the interest result in financial year 2016 includes an interest expense from other non-current provisions, which comprises interest income on plan assets as well as interest expenses from pension obligations and other non-current provisions, in the amount of € 1.1 million (previous year: € 1.0 million).

In financial year 2016, the Group refinanced itself at interest rates of between 0.7% p.a. and 26.0% p.a. (previous year: between 0.7% p.a. and 16.6% p.a.). On the reporting date of December 31, 2016, the weighted average interest rate for non-current financial liabilities was approx. 1.66% p.a. (previous year: approx. 2.0% p.a.) and for current financial liabilities approx. 3.12% p.a. (previous year: approx. 5.1% p.a.). For all of the Group’s financial liabilities the weighted average interest amounted to approx. 1.78% p.a. (previous year: approx. 2.6% p.a.).

Interest payments partially resulting from interest rate swaps designated by STADA as hedging instruments in cash flow hedges are not netted for each swap contract and are recognized as interest income or interest expense in the valuation category of the associated underlying hedged item. For the reporting year, this exclusively concerns financial liabilities which were valued at amortized costs.

Borrowing costs capitalized as part of the cost of qualifying assets amounted to € 1.4 million in financial year 2016 (previous year: € 1.0 million). A capitalization rate of 2.0% for intangible assets (previous year: 2.3%) was taken as a basis.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18. Financial result (Continued)

Other financial income and other financial expenses consist of the following:

in € 000s	2016	2015
<b>Other financial income</b> . . . . .	—	28
thereof		
• from the measurement of financial instruments . . . . .	—	—
• from the disposal of financial instruments . . . . .	—	28
<b>Other financial expenses</b> . . . . .	1,246	3,091
thereof		
• from the measurement of financial instruments . . . . .	518	3,087
• from the disposal of financial instruments . . . . .	728	4

The result from the measurement of financial instruments in the reporting year resulted from interest rate swaps and interest rate/currency swaps measured at fair value through profit or loss. There was a net burden on earnings in the amount of € 0.5 million before or € 0.4 million after taxes. In the previous year, there was a net burden on earnings from the measurement of derivative financial instruments in the amount of € 3.1 million before and € 3.1 million after taxes. The measurement of interest rate hedge transactions depends on the development of the money market interest rate.

The result from the disposal of financial instruments was due to the early utilization of interest rate swaps in financial year 2016.

### 19. Income taxes

The item income taxes includes taxes on income and earnings paid or owed in the individual countries as well as deferred tax liabilities. Other taxes that cannot be meaningfully attributed to the sales, administration or research and development functions are included in other expenses.

Actual income taxes can be divided according to timing as follows:

in € 000s	2016	2015
<b>Actual income taxes</b> . . . . .	54,212	43,591
Tax expense in the current period . . . . .	50,288	48,569
Tax expense from previous periods . . . . .	4,619	546
Tax income from previous periods . . . . .	695	5,524

The deferred taxes are as follows:

in € 000s	2016	2015
<b>Deferred taxes</b> . . . . .	-22,274	-2,953
• from temporary differences . . . . .	-30,073	-2,808
• from loss/interest carryforwards . . . . .	7,799	-145
• from tax credits . . . . .	—	—
• from others . . . . .	—	—

The effective income tax rate amounted to 25.1% for financial year 2016. The effective income tax rate in the previous year was 25.8%. The nominal income tax rate amounted to 28.3% in financial year 2016 for STADA Arzneimittel AG in Germany, this includes corporation tax with a tax rate of 15.0% and the solidarity surcharge in the amount of 5.5% as well as trade income tax with an assessment rate of 357%. In the previous year, the nominal income tax rate of STADA Arzneimittel AG amounted to 27.4%. The difference resulted from the increase in the assessment rate for corporation tax of 27 percentage points in Bad Vilbel.

The following overview explains how the effective income tax expense reported in the income statement was derived from the expected income tax expense. The expected income tax expense is calculated by applying the nominal tax rate of a corporation headquartered in Bad Vilbel to earnings before taxes. The

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19. Income taxes (Continued)

tax effects of the respective tax rates to be applied locally depending on their applicable national and legal forms are reported in a separate reconciliation.

in € 000s	2016	2015
<b>Earnings before taxes</b> . . . . .	<b>127,429</b>	<b>157,803</b>
Nominal income tax rate of STADA Arzneimittel AG (in %) . . . . .	28.3%	27.4%
<b>Expected income tax expense</b> . . . . .	<b>36,088</b>	<b>43,207</b>
Deviation in local tax rate . . . . .	-8,701	-4,779
Tax effects from non-deductible impairment on investments and goodwill . . . . .	—	28
Tax effects from loss carryforwards . . . . .	-6,067	-6,582
Tax effects from previous years . . . . .	-3,676	-4,910
Effects from tax rate changes . . . . .	-4,157	-7,495
Tax effects from non-deductible expenses and tax-free earnings . . . . .	19,436	21,376
Other tax effects . . . . .	-985	-207
<b>Income tax expense shown on the income statement</b> . . . . .	<b>31,938</b>	<b>40,638</b>
Effective income tax rate (in %) . . . . .	25.1%	25.8%

Deviations in the local tax rate primarily resulted from lower nominal tax rates in the United Kingdom.

Tax effects from loss carryforwards primarily resulted from the utilization of tax loss carryforwards for which no deferred tax assets have been recognized so far.

The effects from tax rate changes in the previous year primarily resulted from a decrease in the tax rate in the United Kingdom and the associated remeasurement of deferred taxes.

The actual income taxes and deferred taxes recognized in the balance sheet were as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Income tax receivables . . . . .	12,816	21,182
Income tax liabilities . . . . .	60,625	39,444

in € 000s	2016	2015
Deferred tax assets . . . . .	20,814	34,073
Deferred tax liabilities . . . . .	116,416	160,241
Deferred taxes as of December 31 . . . . .	-95,602	-126,168
Difference compared to previous year . . . . .	30,566	-8,878
thereof		
• Recognized in income . . . . .	22,274	2,953
• Recognized through other comprehensive income . . . . .	-627	-4
• Acquisitions/disposals/changes in the scope of consolidation . . . . .	-3,276	-6,648
• Reclassifications in accordance with IFRS 5 . . . . .	5,490	—
• Currency translation differences . . . . .	6,705	-5,179

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19. Income taxes (Continued)

Deferred taxes result from the following balance sheet items and loss carryforwards:

in € 000s	Dec. 31, 2016 Deferred tax assets	Dec. 31, 2015 Deferred tax assets	Dec. 31, 2016 Deferred tax liabilities	Dec. 31, 2015 Deferred tax liabilities
Intangible assets . . . . .	2,684	2,244	123,318	153,077
Property, plant and equipment . . . . .	1,816	1,423	6,187	6,009
Financial assets . . . . .	830	981	652	617
Inventories . . . . .	10,824	10,948	909	1,317
Receivables . . . . .	8,896	5,144	3,919	4,325
Other assets . . . . .	2,180	3,006	28	5
Other non-current provisions . . . . .	5,079	3,631	464	58
Other provisions . . . . .	1,966	1,555	6,715	8,102
Liabilities . . . . .	4,713	3,541	367	974
Loss carryforwards . . . . .	7,969	15,843	—	—
<b>Total . . . . .</b>	<b>46,957</b>	<b>48,316</b>	<b>142,559</b>	<b>174,484</b>
Offsetting . . . . .	-26,143	-14,243	-26,143	-14,243
<b>Deferred taxes as per balance sheet . . . . .</b>	<b>20,814</b>	<b>34,073</b>	<b>116,416</b>	<b>160,241</b>

Deferred tax liabilities reported by STADA resulted, among other things, from deferred taxes in the context of purchase price allocations carried out under IFRS 3. The reduction in deferred tax liabilities compared with the previous year was primarily a result of scheduled amortization on intangible assets with purchase price allocations measured in accordance with IFRS 3, as well as a decrease in the tax rate in the United Kingdom and the associated remeasurement of deferred taxes.

Tax advantages that are highly probable and expected from the future utilization of tax loss carryforwards are reported under “Tax loss carryforwards”.

Tax loss carryforwards are only capitalized if their future utilization is highly probable. Tax loss carryforwards capitalized as of the December 31, 2016 reporting date amounted to € 30.9 million in financial year 2016 (previous year: € 73.2 million).

Income taxes decreased by a total of € 6.1 million (previous year: Increase of income tax expense by € 6.6 million) through the utilization of previously unrecognized tax loss carryforwards from previous years for which no deferred taxes have been recognized so far and through tax loss carryforwards from the current financial year for which no deferred taxes have been recognized.

The future usable tax loss carryforwards and similar items are listed in the following chart according to their expiry date:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Loss carryforward expiry date within		
• 1 year . . . . .	—	707
• 2 years . . . . .	799	—
• 3 years . . . . .	—	799
• 4 years . . . . .	—	—
• 5 years . . . . .	707	141
• more than 5 years . . . . .	416	5,966
• unlimited carryforward . . . . .	28,936	65,594

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19. Income taxes (Continued)

No deferred taxes were recognized for the following tax loss carryforwards and similar items as it is not probable that they will be realized in the foreseeable future:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Loss carryforward expiry date within		
• 1 year	—	182
• 2 years	—	—
• 3 years	—	—
• 4 years	—	—
• 5 years	—	—
• more than 5 years	19,470	24,420
• unlimited carryforward	84,055	98,650
Temporary differences	- 426	1,379

### 20. Income distributable to non-controlling interests

in € 000s	Dec. 31, 2016	Dec. 31, 2015
<b>Earnings after taxes</b>	<b>95,491</b>	<b>117,165</b>
• thereof distributable to shareholders of STADA Arzneimittel AG (net income)	85,904	110,404
• thereof distributable to non-controlling interests	9,587	6,761

Net income related to non-controlling interests pertains to the subsidiaries STADA Thailand, STADA Import/Export International, STADA Vietnam J.V., Pymepharco, STADA Pharmaceuticals (Beijing), Hemomont and Hemofarm Banja Luka.

### 21. Earnings per share

The basic earnings per share are as follows:

Basic earnings per share	2016	2015
Net income (in € 000s)	85,904	110,404
Adjustment	—	—
<b>Adjusted net income (basic) (in € 000s)</b>	<b>85,904</b>	<b>110,404</b>
Average number of registered shares <sup>(1)</sup> issued (in unit shares)	62,342,440	61,725,885
Average number of treasury shares (in unit shares)	85,908	88,264
<b>Adjusted average number of shares (basic) (in unit shares)</b>	<b>62,256,532</b>	<b>61,637,621</b>
<b>Basic earnings per share (in €)</b>	<b>1.38</b>	<b>1.79</b>

Basic earnings per share are calculated by dividing the adjusted net income distributable to the shareholders of STADA Arzneimittel AG by the time-weighted average number of registered shares<sup>(1)</sup> outstanding.

(1) On August 26, 2016, the STADA Annual General Meeting resolved to eliminate restrictions on the transferability of registered shares by means of a change to the Articles of Incorporation. The change to the Articles Incorporation was entered in the commercial register on December 9, 2016 and took effect on this date. The authorization of the approved capital in accordance with Section 6 (1) of the Articles of Incorporate therefore no longer refers to registered shares with restricted transferability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 22. Number of employees and personnel expenses

The average number of employees at STADA by functional area and functional sub-area is as follows:

	2016	2015
Marketing/Sales . . . . .	3,089	3,012
Logistics . . . . .	360	299
Finance/IT . . . . .	707	684
Production/Quality Assurance . . . . .	4,809	4,644
Procurement/Supply Chain . . . . .	340	333
Product Development . . . . .	623	594
Administration . . . . .	911	875
<b>Entire Group . . . . .</b>	<b>10,839</b>	<b>10,441</b>
<b>Personnel expenses (in € million) . . . . .</b>	<b>365.7</b>	<b>342.7</b>

The average number of employees in the reporting year was above the level of the previous year at 10,839 (previous year: 10,441). The most substantial reasons for the increase in the number of employees in financial year 2016 include the consolidation of the Argentinian Laboratorio Vannier S.A. the acquisition of the British company BMSW Limited and Natures Aid Limited, as well as the acquisition of a local product portfolio, the Serbian IVANCIC I SINOVI I DOO with a total of 218 employees. On the reporting date, the STADA Group's number of employees in 2016 totaled 10,923 (previous year: 10,532).

Personnel expenses, which are included in expenses of the individual functional areas according to their functional relevance, increased in financial year 2016 to € 365.7 million (previous year: € 342.7 million). The increase was primarily attributable to expenses from reorganization decisions and structural measures resulting from a changed corporate structure.

### 23. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses are included in expenses of the individual functional areas according to their functional relevance and can be attributed to intangible assets, property, plant and equipment as follows:

in € 000s	2016	2015
<b>Depreciation/amortization . . . . .</b>	<b>117,180</b>	<b>118,648</b>
Intangible assets . . . . .	83,506	84,429
Property, plant and equipment . . . . .	33,674	34,219
<b>Impairment losses . . . . .</b>	<b>65,480</b>	<b>33,200</b>
Intangible assets . . . . .	61,807	32,948
thereof		
• goodwill . . . . .	—	410
Property, plant and equipment . . . . .	223	161
thereof		
• land and buildings . . . . .	36	—
• plant and machinery . . . . .	97	118
• other fixtures and fittings, tools and equipment . . . . .	90	43
Financial assets . . . . .	3,450	91
thereof		
• Investments . . . . .	3,450	91

The impairment of intangible assets concerns various drug approvals and trademarks.

Impairments of financial assets recorded in the financial year particularly resulted from the termination of further parts of the aesthetics business. The impairments in the previous year primarily related to the carrying amounts of Hetmak FZCO in Dubai.

Depreciation and amortization decreased by 1.2% as compared to the previous year. More information on amortization, depreciation and impairment losses is included in the Notes on non-current assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Notes to the Consolidated Balance Sheet

#### 24. Intangible assets

Intangible assets developed as follows in financial year 2016:

2016 in € 000s	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
<b>Cost as of Jan. 1, 2016</b> . . . . .	<b>1,854,400</b>	<b>465,034</b>	<b>201,653</b>	<b>2,521,087</b>
Currency translation . . . . .	– 12,653	2,137	– 102	– 10,618
Changes in the scope of consolidation . . . . .	– 51	– 927	—	– 978
Additions . . . . .	484	—	81,037	81,521
Additions from business combinations according to IFRS 3 . . . . .	30,585	18,367	—	48,952
Disposals . . . . .	3,085	—	375	3,460
Transfers noncurrent assets and disposal groups held for sale . . . . .	30,387	5,785	—	36,172
Transfers . . . . .	67,980	—	– 67,687	293
<b>Cost as of Dec. 31, 2016</b> . . . . .	<b>1,907,273</b>	<b>478,826</b>	<b>214,526</b>	<b>2,600,625</b>
<b>Accumulated depreciation as of Jan. 1, 2016</b> . . . . .	<b>739,059</b>	<b>73,422</b>	<b>59,586</b>	<b>872,067</b>
Currency translation . . . . .	8,855	1,510	987	11,352
Changes in the scope of consolidation . . . . .	– 51	—	—	– 51
Depreciation/amortization . . . . .	83,506	—	—	83,506
Impairment losses . . . . .	54,677	—	7,130	61,807
Disposals . . . . .	2,241	—	359	2,600
Write-ups . . . . .	—	—	3	3
Reclassifications to noncurrent assets and disposal groups held for sale . . . . .	7,169	690	—	7,859
Transfers . . . . .	488	—	– 443	45
<b>Accumulated amortization as of Dec. 31, 2016</b> . . . . .	<b>877,124</b>	<b>74,242</b>	<b>66,898</b>	<b>1,018,264</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>1,030,149</b>	<b>404,584</b>	<b>147,628</b>	<b>1,582,361</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b> . . . . .	<b>1,115,341</b>	<b>391,612</b>	<b>142,067</b>	<b>1,649,020</b>

Additions from business combinations according to IFRS 3, which are based on fair values determined as part of the purchase price allocation, primarily relate to € 18.8 million from the acquisition of a Serbian product portfolio to strengthen the position in the consumer healthcare area, € 11.5 million from the purchase of the Argentinian Laboratorio Vannier S.A. and € 3.5 million and € 17.4 million from the acquisitions of the British BSMW Limited and Natures Aid Limited.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to two subsidiaries in Asia.

The umbrella brand Hemofarm capitalized in 2006 in the context of the acquisition of the Hemofarm group is included in recognized trademarks as an intangible asset with an indefinite useful life, as STADA intends to make continuing use of it. As at December 31, 2016, this umbrella brand has a carrying amount of € 37.4 million (previous year: € 45.4 million). In the context of the impairment test of December 31, 2016, a royalty rate of 2% and a discount rate of 13.2% were used. There was a necessity for impairment for the reporting year in the amount of € 7.4 million. In addition, the change compared to the previous year figure of € 0.6 million is a result of different foreign exchange rates.

Furthermore, in the context of the control achieved over Pymepharco in 2013, the umbrella brand Pymepharco was capitalized as an intangible asset with an indefinite useful life as a trademark, as STADA intends to continue to use the trademark. As of December 31, 2016, it has a carrying amount of € 9.7 million (previous year: € 9.5 million). The change is a result of different foreign exchange rates. In the



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Intangible assets (Continued)

context of the impairment test of December 31, 2016, a royalty rate of 2% and a discount rate of 13.8% were used. There was no necessity for impairment for the reporting year.

As part of the acquisition of Laboratorio Vannier in the reporting year, the umbrella brand Vannier was capitalized as an intangible asset with a carrying amount of € 0.3 million and an indefinite useful life as a trademark as STADA intends to continue to use the trademark. As at December 31, 2016, it has a carrying amount of € 0.3 million. In the context of the impairment test of December 31, 2016, a royalty rate of 2% and a discount rate of 21.9% were used. There was no necessity for impairment for the reporting year.

Borrowing costs capitalized in 2016 for intangible assets and directly attributable to the acquisition or the production of a qualifying asset amounted to € 1.4 million (previous year: € 1.0 million). In financial year 2016, the capitalization rate taken as a basis for determining borrowing costs eligible for capitalization was 2.0% (previous year: 2.3%).

Development costs of € 31.0 million were capitalized in the reporting year (previous year: € 27.5 million). Capitalized development costs consist mainly of costs that can be allocated to the projects, such as the costs of individuals working in development, material costs and external services, together with directly allocable overhead costs. Internally created intangible assets are amortized on a straight-line basis over their useful life, generally 20 years. STADA immediately recognizes development costs that do not qualify for capitalization as expense in the period in which they are incurred (see Note 15.). In financial year 2016, these development costs amounted to € 65.1 million (previous year: € 65.0 million).

Amortization on intangible assets mainly relates to regulatory drug approvals as well as trademarks and is recognized in the income statement primarily under cost of sales. In the reporting year, this related to an amount of € 83.5 million (previous year: € 84.4 million).

In financial year 2016, impairments on intangible assets were recognized in the total amount of € 61.8 million (previous year: € 32.9 million). No valuation allowances on goodwill were recorded in the reporting year. In the previous year, this related to valuation allowances on goodwill for market region Asia/Pacific & MENA in the amount of € 0.4 million.

Details on changes in the scope of consolidation can be found in the Note on the scope of consolidation (see Note 5.).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Intangible assets (Continued)

Intangible assets developed as follows in the previous year:

2015 in € 000s	Regulatory drug approvals, trademarks, customer relationships, software, licenses and similar rights	Goodwill	Advance payments made and capitalized development costs for current projects	Total
<b>Cost as of Jan. 1, 2015</b> . . . . .	<b>1,744,755</b>	<b>445,874</b>	<b>207,121</b>	<b>2,397,750</b>
Currency translation . . . . .	7,752	2,172	2,534	12,458
Changes in the scope of consolidation . . . . .	37	1,087	—	1,124
Additions . . . . .	14,889	—	56,912	71,801
Additions from business combinations according to IFRS 3 . . . . .	33,316	17,728	70	51,114
Disposals . . . . .	10,748	1,827	585	13,160
Transfers . . . . .	64,399	—	– 64,399	0
<b>Cost as of Dec. 31, 2015</b> . . . . .	<b>1,854,400</b>	<b>465,034</b>	<b>201,653</b>	<b>2,521,087</b>
<b>Accumulated amortization as of Jan. 1, 2015</b> . . . . .	<b>635,523</b>	<b>73,571</b>	<b>57,140</b>	<b>766,234</b>
Currency translation . . . . .	– 3,267	– 559	– 434	– 4,620
Changes in the scope of consolidation . . . . .	—	—	—	—
Depreciation/amortization . . . . .	84,429	—	—	84,429
Impairment losses . . . . .	28,736	410	3,802	32,948
Disposals . . . . .	6,361	—	563	6,924
Write-ups . . . . .	—	—	—	—
Transfers . . . . .	359	—	– 359	0
<b>Accumulated amortization as of Dec. 31, 2015</b> . . . . .	<b>739,059</b>	<b>73,422</b>	<b>59,586</b>	<b>872,067</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b> . . . . .	<b>1,115,341</b>	<b>391,612</b>	<b>142,067</b>	<b>1,649,020</b>
<b>Residual carrying amounts as of Dec. 31, 2014</b> . . . . .	<b>1,109,232</b>	<b>372,303</b>	<b>149,981</b>	<b>1,631,516</b>

The following amortization expense is expected for the intangible assets in the next five years:

in € 000s	Expected amortization
2017 . . . . .	83,245
2018 . . . . .	83,785
2019 . . . . .	84,944
2020 . . . . .	84,802
2021 . . . . .	85,598

The following table shows which cash-generating units the capitalized goodwill can be attributed to:

Residual carrying amount as of Dec. 31, 2016 in € million	
Generics . . . . .	188.7
Branded Products . . . . .	215.9
<b>Total</b> . . . . .	<b>404.6</b>

In accordance with the fundamental change to reporting structures in the third quarter of 2016 agreed by the Executive Board, the STADA Group no longer reports by segments and market regions, but by operating segments, i.e. the two segments Generics and Branded Products. This measure is in line with the growth strategy, including central management of the segments, an increasing internationalization of the product portfolio as well as a stricter cost control and is first applied in the reporting and planning process as part of these Consolidated Financial Statements. In the course of the change, the non-core activity Commercial Business was integrated into the Generics segment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Intangible assets (Continued)

In the course of converting the internal reporting and the associated aggregation of cash-generating units, an impairment test was carried out on June 30, 2016 based on the cash-generating units from the previous year due to an indication of a possible impairment. No necessity for impairment was identified.

In the previous year, the capitalized goodwill for cash-generating units was as follows:

**Residual carrying amount as of Dec. 31, 2015**  
**in € million**

Generics . . . . .	187.8
Branded Products . . . . .	203.8
<b>Total . . . . .</b>	<b><u>391.6</u></b>

In comparison with the previous year<sup>(1)</sup>, there were the following significant changes in the carrying amounts of goodwill:

- The increase in goodwill in the cash-generating unit Branded Products was primarily attributable to the finalizing of the purchase price allocation for the acquisition of the British company Natures Aid

In the context of the regular impairment tests for capitalized goodwill of September 30, 2016, the discounted cash flow method is used to determine anticipated cash inflows, applying the following parameters defined for the individual cash-generating units according to segment:

<u>According to segment, defined as cash-generating unit</u>	<u>Growth rates of the forward-project phase 2016 in %</u>	<u>WACCs 2016 in %</u>
Generics . . . . .	2.4%	10.3%
Branded Products . . . . .	2.7%	10.0%

The discounted cash flow method is used to determine the value in use of the cash-generating units, applying an individual interest rate for each cash-generating unit and a detailed planning period of three years. This detailed planning period reflects the assumptions for short and medium-term market developments. For the period after this three-year detailed planning horizon, a specific estimated growth rate in the amount of the expected long-term inflation rate is assumed. The detailed planning period for the determination of the value in use is based on assumptions in light of past experience, supplemented by current internal developments and verified through external market data and analyses. The most important assumptions include the development of future selling prices, amounts and costs, the influence of the regulatory market environment, investments, market shares, exchange rates and growth rates. Significant changes to the above-described assumptions would influence the determination of the value in use of the cash-generating units. The discount rates applied are determined on the basis of external factors derived from the market and adjusted for the respective predominant risks of the cash-generating units.

Changes in the calculation parameters used for the impairment tests may influence the fair values of cash-generating units. A sensitivity analysis was therefore carried out for the different cash-generating units with a 1.0 percentage points higher discount rate, a decrease in the growth rate of 0.5 percentage points and a decrease in EBIT of 10.0 percentage points. Using these assumptions, there was also no necessity for an impairment to any cash-generating unit.

(1) It should be noted here that as a result of the redefinition of the cash-generating units in financial year 2016, the results of the impairment test in financial year 2015 are not comparable with those of financial year 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 25. Property, plant and equipment

Property, plant and equipment developed as follows in financial year 2016:

2016 in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
<b>Cost as of Jan. 1, 2016</b> . . . . .	<b>263,806</b>	<b>225,444</b>	<b>102,389</b>	<b>27,780</b>	<b>619,419</b>
Currency translation . . . . .	1,193	3,555	2,235	– 11	6,972
Changes in the scope of consolidation . . . . .	—	—	– 122	—	– 122
Additions . . . . .	2,242	7,956	8,035	31,894	50,127
Additions from business combinations according to IFRS 3 . . . . .	1,519	2,047	628	—	4,194
Disposals . . . . .	18,061	16,733	7,796	148	42,738
Reclassification to non-current assets and disposal groups held for sale . . . . .	11,693	9,915	1,026	49	22,683
Transfers . . . . .	11,042	10,521	4,383	– 26,239	– 293
<b>Cost as of Dec. 31, 2016</b> . . . . .	<b>250,048</b>	<b>222,875</b>	<b>108,726</b>	<b>33,227</b>	<b>614,876</b>
<b>Accumulated depreciation as of Jan. 1, 2016</b> . . . . .	<b>95,410</b>	<b>132,349</b>	<b>70,043</b>	<b>—</b>	<b>297,802</b>
Currency translation . . . . .	806	3,274	669	—	4,749
Changes in the scope of consolidation . . . . .	—	—	– 119	—	– 119
Depreciation/amortization . . . . .	6,796	16,574	10,304	—	33,674
Impairment losses . . . . .	36	97	90	—	223
Disposals . . . . .	14,335	15,911	6,925	—	37,171
Write-ups . . . . .	—	—	—	—	—
Reclassification to non-current assets and disposal groups held for sale . . . . .	1,527	4,858	567	—	6,952
Transfers . . . . .	– 1	– 1	– 43	—	– 45
<b>Accumulated amortization as of Dec. 31, 2016</b> . . . . .	<b>87,185</b>	<b>131,524</b>	<b>73,452</b>	<b>—</b>	<b>292,161</b>
<b>Residual carrying amounts as of Dec. 31,</b> <b>2016</b> . . . . .	<b>162,863</b>	<b>91,351</b>	<b>35,274</b>	<b>33,227</b>	<b>322,715</b>
<b>Residual carrying amounts as of Dec. 31,</b> <b>2015</b> . . . . .	<b>168,396</b>	<b>93,095</b>	<b>32,346</b>	<b>27,780</b>	<b>321,617</b>

Property, plant and equipment included assets from finance leases, primarily relating to cars and vehicles, in the amount of € 4.4 million (previous year: € 2.8 million), which, in accordance with IAS 17, were recognized at the present value of minimum lease payments and have since been subjected to depreciation.

In the reporting year, reclassifications of non-current assets and disposal groups held for sale relate to two subsidiaries in Asia.

As in the previous year, no borrowing costs were capitalized for property, plant and equipment in financial year 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 25. Property, plant and equipment (Continued)

Property, plant and equipment developed as follows in the previous year:

2015 in € 000s	Land, leasehold rights and buildings including buildings on third-party land	Plant and tools and machinery equipment	Other plants and business equipment	Advance payment and construction in progress	Total
<b>Cost as of Jan. 1, 2015</b> . . . . .	<b>255,066</b>	<b>202,977</b>	<b>99,965</b>	<b>21,270</b>	<b>579,278</b>
Currency translation . . . . .	– 828	– 1,923	– 1,398	– 961	– 5,110
Changes in the scope of consolidation . . . . .	47	1	82	—	130
Additions . . . . .	2,698	10,110	5,542	34,521	52,871
Additions from business combinations according to IFRS 3 . . . . .	36	523	87	—	646
Disposals . . . . .	801	1,748	5,962	367	8,878
Reclassification from non-current assets and disposal groups held for sale . . . . .	482	—	—	—	482
Transfers . . . . .	7,106	15,504	4,073	– 26,683	0
<b>Cost as of Dec. 31, 2015</b> . . . . .	<b>263,806</b>	<b>225,444</b>	<b>102,389</b>	<b>27,780</b>	<b>619,419</b>
<b>Accumulated amortization as of Jan. 1, 2015</b> . . . . .	<b>88,738</b>	<b>119,149</b>	<b>65,961</b>	<b>—</b>	<b>273,848</b>
Currency translation . . . . .	– 763	– 2,035	– 654	—	– 3,452
Changes in the scope of consolidation . . . . .	—	—	—	—	—
Depreciation/amortization . . . . .	7,461	16,685	10,073	—	34,219
Impairment losses . . . . .	—	118	43	—	161
Disposals . . . . .	189	1,638	5,302	—	7,129
Write-ups . . . . .	—	—	—	—	—
Reclassification from non-current assets and disposal groups held for sale . . . . .	155	—	—	—	155
Transfers . . . . .	8	70	– 78	—	0
<b>Accumulated amortization as of Dec. 31, 2015</b> . . . . .	<b>95,410</b>	<b>132,349</b>	<b>70,043</b>	<b>—</b>	<b>297,802</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b> . . . . .	<b>168,396</b>	<b>93,095</b>	<b>32,346</b>	<b>27,780</b>	<b>321,617</b>
<b>Residual carrying amounts as of Dec. 31, 2014</b> . . . . .	<b>166,328</b>	<b>83,828</b>	<b>34,004</b>	<b>21,270</b>	<b>305,430</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Financial assets

Financial assets developed as follows in financial year 2016:

2016 in € 000s	Shares in associates and other investments	Other financial assets	Total
<b>Cost as of Jan. 1, 2016</b> . . . . .	<b>16,085</b>	—	<b>16,085</b>
Currency translation . . . . .	– 157	—	– 157
Changes in the scope of consolidation . . . . .	0	—	0
Additions . . . . .	4,869	—	4,869
Disposals . . . . .	554	—	554
Reclassification from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	—	—	—
<b>Cost as of Dec. 31, 2016</b> . . . . .	<b>20,243</b>	—	<b>20,243</b>
<b>Accumulated impairments as of Jan. 1, 2016</b> . . . . .	<b>14,746</b>	—	<b>14,746</b>
Currency translation . . . . .	– 183	—	– 183
Changes in the scope of consolidation . . . . .	—	—	—
Impairment losses . . . . .	3,450	—	3,450
Disposals . . . . .	6	—	6
Write-ups . . . . .	—	—	—
Reclassification from non-current assets and disposal groups held for sale . . . . .	—	—	—
Transfers . . . . .	—	—	—
<b>Accumulated impairments as of Dec. 31, 2016</b> . . . . .	<b>18,007</b>	—	<b>18,007</b>
<b>Residual carrying amounts as of Dec. 31, 2016</b> . . . . .	<b>2,236</b>	—	<b>2,236</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b> . . . . .	<b>1,339</b>	—	<b>1,339</b>

Financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices. There is currently no intention to sell these financial assets. Held-to-maturity financial investments were included under other financial assets. The impairment of financial assets recorded in the reporting year resulted in particular from the termination of substantial parts of the aesthetics business.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Financial assets (Continued)

Financial assets developed as follows in the previous year:

2015 in € 000s	Shares in associates and other investments	Other financial assets	Total
<b>Cost as of Jan. 1, 2015</b>	<b>18,859</b>	—	<b>18,859</b>
Currency translation	—58	—	—58
Changes in the scope of consolidation	—1,092	—	—1,092
Additions	615	—	615
Disposals	2,235	—	2,235
Reclassification from non-current assets and disposal groups held for sale	—	—	—
Transfers	—4	—	—4
<b>Cost as of Dec. 31, 2015</b>	<b>16,085</b>	—	<b>16,085</b>
<b>Accumulated impairments as of Jan. 1, 2015</b>	<b>16,823</b>	—	<b>16,823</b>
Currency translation	—3	—	—3
Changes in the scope of consolidation	—	—	—
Impairment losses	91	—	91
Disposals	2,165	—	2,165
Write-ups	—	—	—
Reclassification from non-current assets and disposal groups held for sale	—	—	—
Transfers	—	—	—
<b>Accumulated impairments as of Dec. 31, 2015</b>	<b>14,746</b>	—	<b>14,746</b>
<b>Residual carrying amounts as of Dec. 31, 2015</b>	<b>1,339</b>	—	<b>1,339</b>
<b>Residual carrying amounts as of Dec. 31, 2014</b>	<b>2,036</b>	—	<b>2,036</b>

### 27. Investments measured at equity

The disclosure relates to the accounting of shares in the associates BIOCEUTICALS Arzneimittel AG, as well as Pharm Ortho Pedic SAS, AELIA SAS and Dialogfarma LLC using the equity method. Investments measured at equity developed as follows in financial year 2016 compared with the previous year:

in € 000s	2016	2015
<b>As of Jan. 1</b>	<b>13,168</b>	<b>10,569</b>
Increase in investment share	—	3
Result from associates	704	1,419
Previous year adjustment	—	1,177
Elimination of dividend income	—	—
Currency translation differences	—	—
<b>As of Dec. 31</b>	<b>13,872</b>	<b>13,168</b>

In financial year 2016, the increase of the investment share in associates was due to the result of associates. The investment share in associates had increased in the previous year due to an adjustment of financial year 2014 recognized directly in equity on current account of the previous year in the amount of € 1.2 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 28. Trade accounts receivable

Trade accounts receivable are composed as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Trade accounts receivable from third parties . . . . .	589,952	589,664
Trade accounts receivable from non-consolidated companies . . . . .	6,923	1,298
Valuation allowances vis-à-vis third parties . . . . .	– 107,804	– 105,061
<b>Total . . . . .</b>	<b><u>489,071</u></b>	<b><u>485,901</u></b>

As of December 31, 2016, there are trade accounts receivable due after one year in the amount of € 3.3 million (December 31, 2015: € 1.1 million).

Collateral exists for a portion of trade accounts receivable whose value was not impaired in the form of bank or corporate guarantees as well as pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

The following non-impaired trade accounts receivable were past due at the reporting date:

in € 000s	Carrying amount	thereof: neither impaired nor past due as at the reporting date	thereof: not impaired as at the reporting date and past due in the following time band			
			up to 30 days	between 31 and 90 days	between 91 and 180 days	more than 180 days
Dec. 31, 2016 . . . . .	489,071	415,318	17,453	32,191	18,058	6,051
Dec. 31, 2015 . . . . .	485,901	443,106	20,081	14,286	7,717	711

There were no recognizable indications as of the reporting date that the debtors would not meet their payment obligations. Therefore, the trade accounts receivable that are not impaired and not past due are considered to be unconditionally recoverable. There are also no indications of impairment for the overdue receivables that have not been impaired.

Overall, valuation allowances on trade accounts receivable developed as follows:

in € 000s	2016	2015
<b>As of Jan. 1 . . . . .</b>	<b>105,061</b>	<b>117,430</b>
Added . . . . .	8,564	2,818
Utilized . . . . .	3,248	12,866
Reversed . . . . .	2,304	1,047
Changes in the scope of consolidation and reclassifications in accordance with IFRS 5 . . . . .	– 33	– 19
Currency translation differences . . . . .	– 236	– 1,255
<b>As of Dec. 31 . . . . .</b>	<b><u>107,804</u></b>	<b><u>105,061</u></b>

### 29. Other financial assets

Other financial assets are composed as follows:

in € 000s	Dec. 31, 2016		Dec. 31, 2015	
	Total	thereof: current	Total	thereof: current
Loan receivables . . . . .	234	—	6	6
Outstanding purchase price receivables . . . . .	1,070	765	4,024	3,559
Derivative financial assets . . . . .	9,914	9,914	27,461	26,702
Other financial assets . . . . .	33,112	29,201	51,506	44,012
<b>Total . . . . .</b>	<b><u>44,330</u></b>	<b><u>39,880</u></b>	<b><u>82,997</u></b>	<b><u>74,279</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 29. Other financial assets (Continued)

The outstanding purchase price receivables in financial year 2016 and also primarily in the previous year relate to the still-outstanding installments from the sale of a product portfolio in Italy.

The derivative financial assets include the positive market values of cross-currency swaps as well as of currency forwards (see Note 45.1.).

The remaining financial assets include accruals for price compensations in connection with tender contracts in the amount of € 14.1 million, receivables from the German factoring business in the amount of € 6.4 million and also comprise many immaterial individual items in the Group companies.

As of December 31, 2016, other financial assets included impairments in the amount of € 8.1 million (previous year: € 6.6 million). There are no outstanding amounts for non-impaired other financial assets.

### 30. Other assets

Other assets are composed as follows:

in € 000s	Dec. 31, 2016		Dec. 31, 2015	
	Total	thereof: current	Total	thereof: Current
Other receivables due from the tax authorities . . . . .	12,495	12,253	13,085	12,842
Prepaid expenses/deferred charges . . . . .	11,982	10,780	14,342	11,039
Assets from overfunded pension plans . . . . .	18	—	63	—
Other assets . . . . .	7,290	5,657	5,930	5,165
<b>Total . . . . .</b>	<b>31,785</b>	<b>28,690</b>	<b>33,420</b>	<b>29,046</b>

Remaining assets comprise many immaterial individual items in the Group companies.

Remaining assets are impaired in the amount of € 3.2 million (previous year: € 5.5 million).

### 31. Inventories

Inventories can be subdivided as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Materials and supplies . . . . .	93,156	97,992
Work in progress . . . . .	20,686	25,522
Finished goods and merchandise . . . . .	364,483	372,778
Advance payments . . . . .	6,579	5,228
<b>Total . . . . .</b>	<b>484,904</b>	<b>501,520</b>

In financial year 2016, impairments offset with reversals were made on the net realizable value of inventories in the amount of € 28.2 million (previous year: € 36.5 million), which were already deducted from the amounts shown above through profit and loss. In financial year 2016, reversals here amounted to € 7.7 million (previous year: € 7.2 million).

### 32. Cash and cash equivalents

Cash and cash equivalents include cash on hand and call deposits as well as current and highly liquid financial investments with a maximum term of 90 days from the purchase date. In certain countries, specific transactions are subjected to special monitoring in the context of the requirements of the respective national bank or foreign exchange acts in force. Restrictions on disposal for cash and cash equivalents amount to € 2.3 million (previous year: € 2.3 million) and, as in the previous year, exclusively relate to cash and cash equivalents in China.

The increase in cash and cash equivalents from € 143.2 million as of December 31, 2015 to € 352.6 million as of December 31, 2016 is primarily due to reporting date effects. Further details on the development of cash and cash equivalents can be found in the consolidated cash flow statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 33. Non-current assets and disposal groups held for sale as well as associated debts

As of December 31, 2016, assets in the amount of € 83.0 million and liabilities in the amount of € 14.6 million held for sale in the context of a disposal group were reported in a separate line item in the balance sheet. The disposal group relates to two subsidiaries STADA Vietnam J.V. Co. Ltd., Ho-Chi-Minh City, Vietnam, and STADA Import/Export International Ltd., Hongkong, China, which are expected to be sold in financial year 2017.

The assets and liabilities held for sale are divided between the following main groups:

Assets held for sale as of Dec. 31, 2016 in € 000s	Dec. 31, 2016	Dec. 31, 2015
Intangible assets . . . . .	28,314	—
Property, plant and equipment . . . . .	15,731	—
Other non-current assets . . . . .	88	—
Inventories . . . . .	24,451	—
Trade receivables . . . . .	9,743	—
Cash . . . . .	3,223	—
Other current assets . . . . .	1,410	—
<b>Assets held for sale . . . . .</b>	<b>82,960</b>	<b>—</b>
Liabilities held for sale as of Dec. 31, 2016 in € 000s	Dec. 31, 2016	Dec. 31, 2015
Deferred taxes . . . . .	5,574	—
Other non-current liabilities . . . . .	528	—
Trade payables . . . . .	5,588	—
Other current liabilities . . . . .	2,888	—
<b>Liabilities associated with assets held for sale . . . . .</b>	<b>14,578</b>	<b>—</b>

As the carrying amount of the disposal group was below fair value less disposal costs as of December 31, 2016, no impairment expense was recorded.

### 34. Equity

Group equity amounted to € 1,047.1 million as of the reporting date (previous year: € 1,018.5 million). This corresponds to an equity-to-assets ratio of 30.4% (previous year: 31.0%).

#### 34.1. Share Capital

As of December 31, 2016, share capital amounted to € 162,090,344.00 (December 31, 2015: € 162,090,344.00) and was divided into 62,342,440 registered shares (December 31, 2015: 62,342,440), each with an arithmetical share of share capital of € 2.60 per share, and is fully paid. Each share grants one vote in the Annual General Meeting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Equity (Continued)

As of December 31, 2016, authorized share capital and conditional capital were comprised as follows:

	Amount in €	Shares	Purpose
Authorized capital . . . . .	77,134,304.00	29,667,040	Increase of share capital (until June 4, 2018)
Conditional Capital 2013 . . . . .	69,188,340.00	26,610,900	Settlement of options and/or conversion rights (until June 4, 2018) in connection with issued bonds with warrants and/or convertible bonds, participation rights and/or participating bonds in the total nominal amount of up to € 1.0 billion, or in the scope of a guarantee assumed for bonds with warrants and/or convertible bonds, participation rights and/or participating bonds issued by subordinate Group companies

#### 34.2. Capital reserve

Changes in the capital reserve of the Group are shown in the consolidated statement of changes in equity and particularly include the capital reserve of STADA Arzneimittel AG. Differences from the capital reserve determined according to the provisions of German commercial law primarily result from the recognition at their market value of the shares of STADA Arzneimittel AG newly issued in 2003 as well as the associated treatment of issuing costs, which were deducted from the capital reserve.

Changes in the capital reserve were solely the result of the change in treasury shares in financial year 2016. In the previous year the increase of capital reserve in particular resulted from STADA warrants 2000/2015 in the context of the exercise of options, which expired at the end of June 26, 2015.

#### 34.3. Retained earnings including net income

Retained earnings including net income comprise net income for the financial year as well as earnings generated in previous periods, provided these were not distributed, including amounts transferred to retained earnings. In addition, revaluations of net debt from defined benefit plans that were recognized through other comprehensive income are reported under this item, taking deferred taxes into account.

In the context of measuring the defined benefit obligations as of December 31, 2016, net income in the amount of € 4.8 million after deferred taxes—not considering amounts attributable to non-controlling interests—resulted from the remeasurement. It is mainly based on the reduction of discount rate on which the remeasurement is based for various defined benefit plans in the STADA Group underlying the measurement of December 31, 2016 in comparison with December 31, 2015.

#### 34.4. Other reserves

Other reserves include results recognized directly in equity. This relates, among other things, to foreign exchange gains and losses resulting from the currency translation with no effect on income of financial statements of companies included in the Group, which are reported in the statement of changes in equity under the currency translation reserve. The reserve “available for sale” and the reserve for cash flow hedges include the results from the measurement at fair value of financial instruments categorized as available for sale, and the measurement results from cash flow hedges from the effective portion of the hedge, allowing for respective deferred taxes.

The reduction of other reserves compared with the previous year is primarily composed of the following opposing effects: On the one hand, the devaluation of the British pound sterling since December 31, 2015 led to expenses recognized directly in equity from the currency translation of financial statements of

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Equity (Continued)

companies reporting in British pound sterling. On the other hand, the appreciation of the Russian ruble since December 31, 2015 has resulted in income recognized in equity from the currency translations of financial statements of companies reporting in the respective currency, which only partially compensated for the previously described expenses.

#### 34.5. Treasury shares

As of the reporting date, the Company held 85,043 treasury shares (previous year: 87,259), each with an arithmetical par value of € 2.60 per share, which is equivalent to 0.14% (previous year: 0.14%) of the share capital. In financial year 2016, 2,216 treasury shares were sold at an average price of € 36.31 per share within the scope of an employee share ownership plan.

#### 34.6. Shares relating to non-controlling shareholders

Shares of non-controlling shareholders relate to minority interests of other shareholders in the subsidiaries STADA Thailand, STADA Import/Export International, STADA Vietnam, Pymepharco, STADA Pharmaceuticals (Beijing), Well Light Investment Services, Hemomont and Hemofarm Banja Luka.

### 35. Other non-current provisions

Other non-current provisions made by STADA as of the reporting date in Germany and outside Germany include pension provisions and other non-current provisions in the form of anniversary provisions and provisions for working time accounts as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Germany . . . . .	13,157	11,464
Outside Germany . . . . .	22,840	17,405
<b>Total . . . . .</b>	<b><u>35,997</u></b>	<b><u>28,869</u></b>

In Germany, STADA has plan assets in the form of reinsurance policies, which are used to serve the pension entitlements of a small number of former employees. In addition, there are plan assets for a pension obligation which was outsourced to a pension fund. All further pension entitlements are financed internally in the scope of pension provisions. In addition, there are plan assets in a few foreign subsidiaries in the form of, among others, insurances, government bonds and securities funds.

In financial year 2016, the plan assets of one international subsidiary exceeded their pension obligations, with the result that these assets in excess were reported under other assets as assets from overfunded pension plans in the amount of € 0.02 million (previous year: € 0.1 million including Germany).

Plan assets were divided according to investment type as follows:

Share of plan assets in € 000s	2016	2015
Cash and cash equivalents . . . . .	1,245	682
Equity securities . . . . .	6,045	5,279
Debt securities . . . . .	18,983	13,811
Real estate . . . . .	1,813	1,359
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	13,075	18,475
Insurance policies . . . . .	77,009	64,990
Other . . . . .	459	363
<b>Total . . . . .</b>	<b><u>118,629</u></b>	<b><u>104,959</u></b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

The plan assets, which have a quoted market price, consist of the following:

Share of plan assets (quoted market price) in € 000s	2016	2015
Cash and cash equivalents . . . . .	1,245	682
Equity securities . . . . .	6,045	5,279
Debt securities . . . . .	18,983	13,811
Real estate . . . . .	1,813	1,359
Derivatives . . . . .	—	—
Shares in investment funds . . . . .	13,075	16,235
Insurance policies . . . . .	—	—
Other . . . . .	459	363
<b>Total</b> . . . . .	<b>41,620</b>	<b>37,729</b>

For German Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € 000s	2016	2015
<b>As of Jan. 1</b> . . . . .	<b>48,748</b>	<b>52,474</b>
Current service cost . . . . .	36	38
Past service cost . . . . .	—	—
Plan settlements . . . . .	—	—
Interest cost . . . . .	1,163	1,043
Benefits paid from plan assets . . . . .	-114	-116
Benefits paid by employer . . . . .	-471	-477
Revaluations:		
• Gains (-) / losses (+) due to changed demographic assumptions . . . . .	—	—
• Gains (-) / losses (+) due to changed financial assumptions . . . . .	7,054	-4,291
• Gains (-) / losses (+) due to experience-based changes . . . . .	1,182	77
<b>As of Dec. 31</b> . . . . .	<b>57,598</b>	<b>48,748</b>

For international Group companies, pension obligations developed as follows:

Projected benefit obligations for pension commitments in € 000s	2016	2015
<b>As of Jan. 1</b> . . . . .	<b>81,583</b>	<b>75,462</b>
Current service cost . . . . .	2,719	1,829
Past service cost . . . . .	752	1,246
Plan settlements . . . . .	-472	-36
Interest cost . . . . .	2,256	2,084
Benefits paid from plan assets . . . . .	-1,333	-2,793
Benefits paid by employer . . . . .	-279	-615
Employee contributions . . . . .	492	490
Insurance premiums for death and disability benefits . . . . .	-217	-181
Business combinations . . . . .	—	—
Disposals . . . . .	-113	-278
Reclassifications . . . . .	-528	4,776
Revaluations:		
• Gains (-) / losses (+) due to changed demographic assumptions . . . . .	-1,124	31
• Gains (-) / losses (+) due to changed financial assumptions . . . . .	12,688	-3,899
• Gains (-) / losses (+) due to experience-based changes . . . . .	205	774
Currency changes . . . . .	-3,191	2,699
Other . . . . .	-96	-6
<b>As of Dec. 31</b> . . . . .	<b>93,342</b>	<b>81,583</b>

The past service cost is primarily attributable to a relief through new legal regulations of the minimum rate of return of future contributions of insurance-based pension contributions in Belgium as well as a one-time

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

additional expense in connection with the early payment of an additional benefit plan in Vietnam. Plan settlements relate to positive effects from the acquisition of retirement benefits from old contracts as well as, to a lesser extent, to principle payment benefits in Ireland.

Reclassifications carried out in the reporting year in the amount of € 0.5 million relate to two Asian subsidiaries, the pension obligations for which were reclassified as liabilities associated with current assets and disposal groups held for sale in accordance with IFRS 5. Furthermore, one plan was removed from the scope of consolidation due to the deconsolidation of the company STADA Egypt and reported under the corresponding disposals.

The fair value of plan assets underlying the pension obligations developed as follows for German group companies:

Fair value of plan assets in € 000s	2016	2015
<b>As of Jan. 1</b> . . . . .	<b>37,314</b>	<b>39,319</b>
Interest income . . . . .	766	660
Employer contributions . . . . .	-29	338
Employee contributions . . . . .	—	—
Pension payments . . . . .	-114	-116
Actuarial gains (+) / losses (-) on plan assets (not included in interest result) . . . .	6,504	-2,887
Other . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b>44,441</b>	<b>37,314</b>

The fair value of plan assets underlying the pension obligations developed as follows for international Group companies:

Fair value of plan assets in € 000s	2016	2015
<b>As of Jan. 1</b> . . . . .	<b>67,645</b>	<b>62,029</b>
Interest income . . . . .	1,816	1,667
Employer contributions . . . . .	2,195	1,422
Employee contributions . . . . .	492	490
Pension payments . . . . .	-1,333	-2,793
Insurance premiums for death and disability benefits . . . . .	-217	-181
Business combinations . . . . .	—	—
Disposals . . . . .	—	—
Reclassifications . . . . .	—	4,454
Actuarial gains (+) / losses (-) on plan assets (not included in interest result) . . .	7,228	-1,722
Currency changes . . . . .	-3,456	2,453
Other . . . . .	-182	-174
<b>As of Dec. 31</b> . . . . .	<b>74,188</b>	<b>67,645</b>

The amount of the pension provisions recognized as of the reporting date for companies with plan assets is therefore as follows:

in € 000s	2016	2015
Projected benefit obligations for pension commitments . . . . .	137,452	118,991
Fair value of plan assets . . . . .	118,629	104,959
<b>Net obligation</b> . . . . .	<b>18,823</b>	<b>14,032</b>
Effect from the limit on a defined benefit asset according to IFRIC 14 . . . . .	—	—
<b>Net liability recognized in balance sheet</b> . . . . .	<b>18,823</b>	<b>14,032</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

The amount of the pension provisions recognized as of the reporting date for companies without plan assets is therefore as follows:

in € 000s	2016	2015
Projected benefit obligations for pension commitments . . . . .	13,488	11,340
<b>Net liability recognized in balance sheet . . . . .</b>	<b>13,488</b>	<b>11,340</b>

Expenses for defined benefit plans amounted to net expenses in the total amount of € 4.0 million in financial year 2016 (previous year: € 4.0 million) and consisted of the following components:

in € 000s	2016	2015
Current service cost . . . . .	2,755	1,867
Past service cost . . . . .	752	1,246
Plan settlements . . . . .	-472	-36
Net interest expense:		
• Interest expense (DBO) . . . . .	3,419	3,127
• Interest income (plan assets) . . . . .	-2,582	-2,327
• Interest income from reimbursement . . . . .	—	—
• Interest expense (+) / interest income (–) from the limit on an asset . . . . .	—	7
Administration costs . . . . .	153	131
Other . . . . .	—	0
<b>Total . . . . .</b>	<b>4,025</b>	<b>4,015</b>

The income from plan assets amounted to € 7.3 million in financial year 2016 (previous year: expense of € 2.2 million) for German group companies and € 9.0 million for international group companies (previous year: expense of € 0.1 million). The increase in plan assets for German Group companies is mainly due to an increase of the plan assets of an approval to the level of the gross obligation as a result of existing reinsurance; this is a consequence of a decreased measurement rate in financial year 2016. The increase in the plan assets abroad particularly results from an increase in the plan assets in the United Kingdom and the Netherlands.

The following actuarial parameters were used as a basis for measuring the German pension obligations and pension costs:

Parameters for pension obligations for German Group companies (weighted)	Dec. 31, 2016	Dec. 31, 2015
Discount rate . . . . .	1.7%	2.4%
Salary trend . . . . .	3.0%	1.9%
Benefits trend . . . . .	1.4%	1.4%
Inflation . . . . .	1.8%	1.8%

The increase in the salary trend is due to the fact that the last active plan participant in a pension plan will receive a pension from 2017 and this pension plan will no longer have a negative influence on the average salary trend.

The following actuarial parameters were used as a basis for measuring the international pension obligations and pension costs:

Parameters for pension obligations for international Group companies (weighted)	Dec. 31, 2016	Dec. 31, 2015
Discount rate . . . . .	2.1%	3.0%
Salary trend . . . . .	2.7%	2.6%
Benefits trend . . . . .	0.9%	0.9%
Inflation . . . . .	2.0%	1.9%

A sensitivity analysis was carried out in which only one assumption was changed in each case and all other assumptions were not changed. In the following, the change in the defined benefit obligation of the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

pension obligations (DBO) for German Group companies is presented according to a change in the discount rate, salary trends and pension trends.

**Change in the defined benefit obligation for pension obligations (DBO)  
as of December 31, 2016 (€ 57,598,000) according to changed assumption  
in € 000s**

	Dec. 31, 2016	Dec. 31, 2015
Discount rate +0.5% . . . . .	–5,376	–4,691
Discount rate –0.5% . . . . .	6,019	5,448
Salary trend +0.5% . . . . .	16	4,051
Salary trend –0.5% . . . . .	–11	–3,480
Pension trend +0.5% . . . . .	6,111	5,236
Pension trend –0.5% . . . . .	–5,284	–4,556

The salary trend is largely insignificant after the last active plan participant in a pension plan receives a pension from 2017.

In the following, the change in the defined benefit obligation of the pension obligations (DBO) for international Group companies is presented according to a change in the discount rate, salary trends and pension trends.

**Change in the defined benefit obligation for pension obligations (DBO)  
as of December 31, 2016 (€ 93,342,000) according to changed assumption  
in € 000s**

	Dec. 31, 2016	Dec. 31, 2015
Discount rate +0.5% . . . . .	–7,618	–6,599
Discount rate –0.5% . . . . .	8,575	7,532
Salary trend +0.5% . . . . .	867	793
Salary trend –0.5% . . . . .	–814	–767
Pension trend +0.5% . . . . .	4,850	4,033
Pension trend –0.5% . . . . .	–1,256	–1,132

As of December 31, 2016, the weighted duration of the pension obligations amounts to 20 years (previous year: 21 years) for German Group companies and 17 years (previous year: 17 years) for international Group companies.

In the coming financial years, the following payments from the Company and from plan assets overall are expected for defined benefit plans:

**Expected pension payments according to maturity dates  
in € 000s**

	Germany	Outside Germany
Less than 1 year . . . . .	1,673	3,627
Between 1 and 2 years . . . . .	1,726	3,947
Between 2 and 3 years . . . . .	1,987	3,148
Between 3 and 4 years . . . . .	1,982	2,875
Between 4 and 5 years . . . . .	1,992	2,995
Between 5 and 10 years . . . . .	9,957	17,949

For the coming financial year, employer contributions, consisting of direct pension payments and contributions to the plan, are expected in the amount of € 0.7 million for German Group companies and € 3.6 million for international Group companies.

The regulations of IAS 19 require a presentation of the benefit plans that generate obligations for the company. For the STADA Group, retirement benefit plans in Germany, the Netherlands, the United Kingdom and Switzerland account for the largest share of total obligations with 83%. Accordingly, the following details focus more on these countries.

In Germany, the legal framework for company pension plans is provided by the Company Pensions Act (Betriebsrentengesetz—BetrAVG), in which the minimum legal requirements for company pension plans are embedded. Regulation and legal precedents within labor law must also be followed. The retirement

**35. Other non-current provisions (Continued)**

benefit plans are predominantly based upon the final salary and are concluded with newly hired employees. Plan participants are primarily beneficiaries. Benefits are paid out in the form of a pension.

In Germany, STADA has plan assets in the form of reinsurance policies and in the form of assets in a pension fund. As of December 31, 2016, plan assets amounted to € 44.4 million and were composed of three different plans. There are no plan assets for two additional plans.

In the context of risk assessment, the life expectancy of plan participants plays a smaller role in Germany, as the material obligation regarding its amount and including associated risks was outsourced externally. Furthermore, there is also the common risk of the interest rate development and the risk that the real future salary development exceeds the salary development derived from assumptions taken in the evaluation.

The pension commitment for the former Chairman of the Executive Board was transferred to a pension fund in full in financial year 2014. Despite the transfer, the necessity remains, due to the secondary liability of STADA, to treat the benefit plan as defined benefit plan in accordance with IAS 19 and measure and recognize it accordingly in the balance sheet. The existing plan assets lead to a provision of zero due to offsetting that must be carried out at the time of the plan amendment for this benefit plan. Because the pension commitment is fully funded, no further provisions are expected in the future.

Pension legislation in the Netherlands requires pension plans to be backed by assets to such an extent that the vested benefits are completely covered. The underlying average career pension plan in the Netherlands is, in part, financed via insurance contributions that are designed to fulfill the aforementioned requirement. The plan is open for new employees and contains benefits that fall due in case of retirement or early death.

In the Netherlands, the pension plan is partially financed via contributions to an insurance company. Assets received by the insurance company cannot be allocated to specific participating companies. The assets cannot be determined by a quoted active market price, instead they are determined according to the amount of vested benefit obligations. As of December 31, 2016, plan assets amounted to € 26.9 million.

The Dutch company pays annual pension contributions. In the process, life expectancy risk and interest rate risk are transferred to the insurance company. The insurance company also assumes the risk of investing the proceeds. These risks are assumed by the insurance company for the entire term of the contract. If, for example, the discount rate used by the insurance company in its calculations should change, a new contract could be concluded that applies the new discount rate to underlie only future proceeds received.

Not all risks have been transferred to the insurance company. Dutch law for example specifies that former employees have the right to transfer their pension entitlements to the pension plan of a new employer. If the evaluation assumptions applied in the transfer differ from the originally applied assumptions of the insurance, the company could be required to pay an additional contribution payment.

In the United Kingdom, STADA provides its employees with defined benefit plans that are concluded for new hires. The employees can also no longer earn an additional increase in their entitlements. The pension plans are subject to the UK Trust Law and the UK Pension Regulator and are monitored by trustees who determine the investment strategy. The trustees are also responsible for fulfilling the legally required pension plan funding and ensuring sufficient assets to cover the technical provision of the plan. The pension plan is subject to risks relating to the discount rate and participant life expectancy as well as inflation risk, if these values develop contrary to expectations. If the discount rate is low, the level of funding decreases, which may require the payment of additional contributions. There is a financing risk in plan assets in that plan assets could develop contrary to expectations and plan assets could therefore only compensate in part for changes in the obligations.

In the long-term, 40% of the plan assets in the United Kingdom should be invested in so-called matching assets, which guarantee the fulfillment of future pension obligations under changing market conditions. In accordance with target allocation, the remaining 60% should be invested in so-called growth assets, for which an above-average rate of return is expected in comparison with the obligation development. As of December 31, 2016, plan assets amounted to € 23.3 million. All assets have quoted market prices on an active market.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35. Other non-current provisions (Continued)

In Switzerland, all employers must offer their employees a pension plan according to federal pension law (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge—BVG). Employees whose salary exceeds the entry limit are obliged to be insured—this is re-determined periodically. The BVG requires a minimum plan (the “BVG minimum”) that must always be covered. STADA's Swiss benefit plan includes benefits in case of death, disability, departure and upon reaching retirement age. The annual pension is calculated based on a savings account and conversion rate determined according to the age of retirement. Plan participants can opt for a capital option.

The contributions for defined contribution plans, which are reported as expense in the respective period in the relevant functional areas, amounted to € 23.2 million in financial year 2016 (previous year: € 22.4 million).

The other non-current provisions developed as follows:

Other non-current provisions in € 000s	2016	2015
<b>As of Jan. 1</b> . . . . .	<b>3,434</b>	<b>3,243</b>
Current service cost . . . . .	295	282
Past service cost . . . . .	– 203	1
Plan settlements . . . . .	—	—
Interest cost . . . . .	223	207
Benefits paid . . . . .	– 330	– 443
Business combinations . . . . .	—	—
Revaluations		
• Gains (–)/losses (+) due to changed demographic assumptions . . . . .	22	19
• Gains (–)/losses (+) due to changed financial assumptions . . . . .	472	– 1
• Gains (–)/losses (+) due to experience-based changes . . . . .	– 230	132
Currency changes . . . . .	– 15	– 6
Reclassifications . . . . .	—	—
<b>As of Dec. 31</b> . . . . .	<b>3,668</b>	<b>3,434</b>

The following actuarial parameters were used as a basis for measuring the other long-term provisions:

Parameters for other long-term provisions for international Group companies (weighted)	Dec. 31, 2016	Dec. 31, 2015
Discount rate . . . . .	5.0%	6.7%
Salary trend . . . . .	4.0%	4.0%
Inflation . . . . .	3.3%	3.3%

### 36. Financial liabilities

Financial liabilities are comprised as follows in accordance with their remaining terms as of the balance sheet date:

in € 000s	Liabilities promissory note loans		Amounts due to banks		Liabilities from bonds		Total	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Remaining terms up to 1 year	43,993	187,734	90,351	86,938	—	—	134,343	274,672
Remaining terms over 1 year								
up to 3 years . . . . .	294,487	43,935	25,575	80,353	348,912	348,149	668,974	472,437
Remaining terms over 3 years								
up to 5 years . . . . .	307,665	314,252	542	—	—	—	308,207	314,252
Remaining terms over 5 years	61,314	—	—	—	297,918	297,524	359,232	297,524
<b>Financial liabilities</b> . . . . .	<b>707,459</b>	<b>545,921</b>	<b>116,468</b>	<b>167,291</b>	<b>646,830</b>	<b>645,673</b>	<b>1,470,757</b>	<b>1,358,885</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 36. Financial liabilities (Continued)

The increase in financial liabilities was attributable to the securing of additional promissory note loans in the total amount of € 350.0 million, which will be used for the financing of the promissory note loans, which expired in financial year 2016 in the total amount of € 188.0 million.

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2016, from interest payments and repayment of financial liabilities for the coming years can be seen in the following table:

in € 000s	2017			2018			> 2019		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . . .	22,471	2,396	125,066	20,347	2,322	383,350	35,734	2,508	966,789

The following projection of cash flows from financial liabilities was generated in the previous year:

in € 000s	2016			2017			> 2017		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from financial liabilities . . . . .	30,295	3,856	248,978	19,167	2,188	94,352	42,164	2,377	990,142

For the financial liabilities existing as of the reporting date, a repayment in accordance with the maturity disclosed in the balance sheet was generally assumed. For current liabilities due to banks, an extension of existing credit lines was partly assumed. The variable interest payments from the promissory note loans were determined based on the interest rate last fixed before December 31, 2016.

Internal measures to ensure the necessary liquidity for repayment of financial liabilities are detailed in the Notes on the capital management of liquidity risk (see Note 46.5.).

### 37. Trade payables

Trade payables are composed as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Trade payables to third parties . . . . .	244,138	252,278
Trade payables to non-consolidated Group companies . . . . .	3,784	115
Advances received on orders from third parties . . . . .	634	1,618
Liabilities from outstanding accounts . . . . .	88,288	74,476
<b>Total . . . . .</b>	<b>336,844</b>	<b>328,487</b>

Of the total amount of trade payables, € 0.0 million (previous year: € 0.0 million) are due after one year.

The change in trade payables primarily resulted from effects related to the reporting date, especially relating to deferrals for outstanding invoices. Furthermore, financial year 2016 saw an increase in comparison to the previous year resulting from business combinations reported in accordance with IFRS 3.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38. Other financial liabilities

Other financial liabilities are broken down as follows:

in € 000s	Dec. 31, 2016		Dec. 31, 2015	
	Total	thereof: current	Total	thereof: current
Outstanding purchase price liabilities . . . . .	5,609	3,616	3,972	1,545
Finance lease liabilities . . . . .	3,316	1,489	2,211	1,010
Liabilities from derivative financial instruments . . . . .	11,869	11,869	4,611	4,283
Other financial liabilities . . . . .	197,153	197,057	215,199	215,199
<b>Total . . . . .</b>	<b>217,947</b>	<b>214,031</b>	<b>225,993</b>	<b>222,037</b>

As of December 31, 2016, the outstanding purchase price liabilities were primarily attributable to outstanding contingent consideration for the acquisition of Argentinean company Laboratorio Vannier and product acquisitions in Italy and the United Kingdom.

As of December 31, 2015 the outstanding purchase price liabilities had mainly comprised amounts from the acquisition of the British Socialites group and various products in the United Kingdom, which were not yet due.

Finance lease liabilities, such as for vehicles and passenger vehicles, amount to € 3.3 million (previous year: € 2.2 million). Considering interest in the amount of € 0.6 million (previous year: € 0.3 million), lease installments payable in subsequent years total € 3.9 million (previous year: € 2.5 million). The lease liabilities are due as follows:

in € 000s	Lease installments		Interest		Finance lease liabilities	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Remaining terms up to 1 year . . . . .	1,807	1,214	318	204	1,489	1,010
Remaining terms over 1 year up to 3 years . . . . .	1,679	1,294	271	113	1,408	1,181
Remaining terms over 3 years up to 5 years . . . . .	402	22	17	2	385	20
Remaining terms over 5 years . . . . .	34	—	—	—	34	—
<b>Total . . . . .</b>	<b>3,922</b>	<b>2,530</b>	<b>606</b>	<b>319</b>	<b>3,316</b>	<b>2,211</b>

In addition, the negative market values of derivatives measured at fair value through profit or loss were reported in liabilities from derivative financial instruments. In financial year 2016, this related to cross-currency swaps and currency forwards (see Note 45.1.). Within the scope of the maturity date analysis, the following contractually agreed remaining terms result for these derivative financial liabilities:

in € 000s	Derivative financial liabilities	
	Dec. 31, 2016	Dec. 31, 2015
Remaining terms up to 1 year . . . . .	11,869	1,238
Remaining terms over 1 year up to 3 years . . . . .	—	3,328
Remaining terms over 3 years up to 5 years . . . . .	—	—
Remaining terms over 5 years . . . . .	—	—
<b>Total . . . . .</b>	<b>11,869</b>	<b>4,611</b>

Remaining financial liabilities include liabilities from discount agreements of German STADA companies in the amount of € 166.3 million (previous year: € 178.3 million) and furthermore comprise many insignificant individual items in the Group companies. The remaining financial liabilities fall due in the amount of € 197.2 million (previous year: € 215.2 million) within one year, in the amount of € 0.1 million after one year and up to five years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38. Other financial liabilities (Continued)

The contractually agreed undiscounted cash flows, as of the reporting date December 31, 2016, from interest payments and repayment of finance lease liabilities and for the liabilities from derivative financial instruments for the coming years can be seen in the following table:

in € 000s	2017			2018			2019–2021		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	318	—	1,489	179	—	862	109	—	931
Cash flows from derivatives	156	—	—	—	—	—	—	—	—

The following projection of cash flows from finance lease liabilities as well as derivatives was generated in the previous year:

in € 000s	2016			2017			2018–2020		
	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment	Interest rate fixed	Interest rate variable	Repayment
Cash flows from finance lease liabilities . . . . .	204	—	1,010	96	—	883	19	—	218
Cash flows from derivatives	1,465	—	—	107	—	—	—	—	—

Included were all financial instruments used by STADA which existed as of December 31, 2016 and for which payments had already been contractually agreed.

Further details on liabilities from derivative financial instruments can be found in the Notes on financial instruments Note 45. and Note 46.7.

### 39. Other financial liabilities

Other liabilities were comprised as follows:

in € 000s	Dec. 31, 2016		Dec. 31, 2015	
	Total	thereof: current	Total	thereof: current
Tax liabilities . . . . .	8,170	8,121	12,499	12,499
Personnel related liabilities . . . . .	64,308	64,308	47,387	47,254
Other liabilities . . . . .	47,424	46,504	44,548	42,628
<b>Total . . . . .</b>	<b>119,902</b>	<b>118,933</b>	<b>104,434</b>	<b>102,381</b>

Among other things, other liabilities include the share-based Executive Board remuneration from deferrals, which is calculated at fair value. Until the liability is settled, the fair value is to be calculated at each financial statement reporting date and at the date of settlement, and the changes in current fair values are to be recognized in the income statement through profit or loss.

In addition, personnel-related liabilities increased primarily due to reorganizational decisions and structural measures resulting from a changed corporate structure.

Remaining liabilities comprise many insignificant individual items in the Group companies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 40. Other provisions

Other provisions are composed as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Provisions set aside for damages . . . . .	1,425	1,082
Warranties . . . . .	18,848	21,450
<b>Total . . . . .</b>	<b><u>20,273</u></b>	<b><u>22,532</u></b>

Provisions set aside for damages include possible utilization from pending legal disputes including the associated legal costs and developed as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
<b>As of Jan. 1 . . . . .</b>	<b>1,082</b>	<b>343</b>
Added . . . . .	857	739
Utilized . . . . .	200	—
Reversed . . . . .	306	—
Currency translation differences . . . . .	— 8	—
<b>As of Dec. 31 . . . . .</b>	<b><u>1,425</u></b>	<b><u>1,082</u></b>

Utilization is expected within the next twelve months.

Provisions for warranties developed as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
<b>As of Jan. 1 . . . . .</b>	<b>21,450</b>	<b>17,099</b>
Added . . . . .	12,964	13,046
Utilized . . . . .	12,426	8,632
Reversed . . . . .	3,140	63
Changes in the scope of consolidation . . . . .	0	—
<b>As of Dec. 31 . . . . .</b>	<b><u>18,848</u></b>	<b><u>21,450</u></b>

### Other Disclosures

#### 41. Notes to the cash flow statement

Cash flow from operating activities consists of changes in items not covered by investments, financing, exchange differences on the conversion of foreign financial statements or transactions in foreign currencies or through changes in the scope of consolidation and measurement. Cash flow from operating activities improved to € 333.5 million in the reporting year (previous year: € 311.7 million). The increase in cash flow from operating activities of € 21.8 million compared to the previous year is primarily due to a comparatively significantly lower cash-effective increase of inventories and a cash-effective increase in trade accounts payable, although in the previous year a significant cash-effective decrease was recorded here. This positive effect on cash flow from operating activities was partly compensated by cash flows from other net assets that were significantly higher than the previous year.

Cash flow from investing activities reflects the cash outflows for investments reduced by the inflows from disposals. It amounted to € – 172.7 million in the reporting year (previous year: € – 178.2 million).

In financial year 2016, payments for investments in intangible assets in the amount of € 76.1 million (previous year: € 81.4 million) were made, of which € 33.4 million (previous year: € 32.3 million) related to significant investments in intangible assets for the short-term expansion of the product portfolio. Acquisition-related sales growth was generally associated with these investments in the reporting year. Proceeds from the disposal of non-current assets amounted to € 11.0 million (previous year: € 11.8 million) in the financial year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 41. Notes to the cash flow statement (Continued)

The cash flow from investing activities was particularly influenced by payments for investments in intangible assets in the financial year 2016, primarily relating to advance payments made for the development of approvals, trademarks and licence acquisitions in Germany and the United Kingdom. Furthermore, payments were also made for business contributions, in particular from the purchase of a product portfolio in Serbia, as well as the purchase of the British Natures Aid and the Argentinean Laboratorio Vannier.

Cash flow from financing activities amounts to €55.2 million in financial year 2016 (previous year: € –155.1 million) and encompasses payments from changes in financial liabilities, dividend distribution payments and payments for treasury shares as well as additions to shareholders' equity. This development was primarily attributable to the securing of additional promissory note loans in the total amount of € 350.0 million, which will be used for the refinancing of the promissory note loans expiring in financial year 2016 in the total amount of € 188.0 million. In addition, significantly fewer financial liabilities were repaid in the reporting year than in the previous year.

Dividend distribution payments of € 43.6 million primarily related to the dividend paid to the shareholders of STADA Arzneimittel AG for financial year 2015.

Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities amounted to € 160.9 million in financial year 2016 (previous year: € 133.5 million) and is therefore still significantly characterized by a high volume of acquisitions.

Free cash flow, adjusted for effects from payments for significant investments and acquisitions and effects of proceeds from significant disposals is calculated as follows:

in € 000s	2016	2015
Cash flow from operating activities . . . . .	333,522	311,748
Cash flow from investing activities . . . . .	– 172,666	– 178,217
+ Payments for investments in business combinations according to IFRS 3 . . .	52,901	56,778
+ Payments for significant investments in intangible assets for the short-term expansion of the product portfolio . . . . .	33,420	32,256
– Proceeds from disposals in significant disinvestments . . . . .	4,169	10,207
<b>Adjusted free cash flow . . . . .</b>	<b>243,008</b>	<b>212,358</b>

### 42. Segment Reporting

The measurement approaches for segment reporting are in accordance with the financial reporting methods used in the IFRS consolidated financial statements. Services between the segments are charged based on market prices.

Segmentation within the STADA Group is based on sales differentiation. Thus, the allocation to the individual segments is determined to a large extent by the sales positioning. If this positioning changes for parts of the product portfolio, associated sales are reclassified.

In the previous year, STADA aggregated business segments into the reportable segments of Generics and Branded Products, because the type of products, the sales methods and the regulatory framework conditions are largely comparable. According to the new reporting structure, which was introduced in the third quarter, the Group is now only managed by operating segment, i.e. according to the two segments Generics and Branded Products. This measure is primarily designed to take account of the growth strategy including central management of the segments, increasing internationalization of the Branded product portfolio as well as stricter cost control. As part of the changes to the reporting structures over the course of the current financial year, the non-core Commercial Business segment was integrated into the Generics segment. Therefore, the figures reported for the Generics segment for financial year 2016 as well as those for the previous year include the non-core activity Commercial Business, which was previously disclosed separately.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Segment Reporting (Continued)

Generics are products for the health care market—usually with a drug character—which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is offered by emphasizing its low price, usually in contrast to the product of another supplier which contains the identical active pharmaceutical ingredient,

or

- the product is an integral part of a marketing concept targeting more than one product and indication for primarily prescription products with active ingredients whose commercial property rights have expired,

or

- the product is sold under its international non-proprietary name (INN).

Branded Products are products for the health care market which contain one or several active ingredients whose commercial property rights have expired and whose sales positioning complies with one of the two following criteria:

- The product is sold under a product-specific brand name and with emphasis on specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products,

or

- the product is part of a marketing concept for primarily non-prescription products which are mainly sold under a product-specific brand name and with emphasis on different specific product characteristics which aim at a unique position of the product in contrast to competitive products and other Group products.

All other income, expenses and assets, which cannot be directly allocated to the segments, as well as the elimination of sales between segments are recognized under the reconciliation Group holdings/other and consolidation.

Disclosures on significant non-cash items include impairments on inventories and receivables; they do not, however, include depreciation and amortization as well as the offsetting of impairments and write-ups. In addition, further non-cash items, particularly non-cash effects from accruals for health insurance organization billings are included here. Reporting of the segment liabilities and non-current segment assets is waived, as this is without relevance for Group monitoring and for Group reporting.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Segment Reporting (Continued)

#### 42.1 Information by operating segment

in € 000s		2016	2015
<b>Generics</b> . . . . .	<b>External sales</b>	<b>1,280,757</b>	<b>1,261,444</b>
	Sales with other segments	3,431	398
	Total sales	1,284,188	1,261,842
	Operating profit	195,188	177,668
	Depreciation/amortization	50,535	49,770
	Impairment losses	9,858	5,480
	Reversals	3	—
	Other significant non-cash items within operating result	– 186,136	– 192,359
<b>Branded Products</b> . . . . .	<b>External sales</b>	<b>858,462</b>	<b>853,598</b>
	Sales with other segments	40	—
	Total sales	858,502	853,598
	Operating profit	81,361	130,043
	Depreciation/amortization	62,140	60,704
	Impairment losses	42,706	20,970
	Reversals	—	—
	Other significant non-cash items within operating result	– 29,358	– 32,466
<b>Reconciliation Group holdings/ other and consolidation</b> . . . . .	<b>External sales</b>	<b>1</b>	<b>87</b>
	Sales with other segments	– 3,471	– 398
	Total sales	– 3,470	– 311
	Operating profit	– 98,426	– 83,968
	Depreciation/amortization	4,506	8,175
	Impairment losses	12,916	6,750
	Reversals	—	—
	Other significant non-cash items within operating result	– 3,426	– 1,404
<b>Group</b> . . . . .	<b>External sales</b>	<b>2,139,220</b>	<b>2,115,129</b>
	Sales with other segments	—	—
	Total sales	2,139,220	2,115,129
	Operating profit	178,123	223,743
	Depreciation/amortization	117,180	118,648
	Impairment losses	65,480	33,200
	Reversals	3	—
	Other significant non-cash items within operating result	– 218,920	– 226,229

#### 42.2. Reconciliation of segment results to net profit

in € 000s	2016	2015
Operating segment profit . . . . .	276,549	307,711
Reconciliation Group holdings/other and consolidation . . . . .	– 98,426	– 83,968
Result from investments measured at equity . . . . .	703	1,419
Investment income . . . . .	24	138
Financial income . . . . .	2,716	1,170
Financial expenses . . . . .	54,137	68,667
<b>Earnings before taxes, Group</b> . . . . .	<b>127,429</b>	<b>157,803</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42. Segment Reporting (Continued)

#### 42.3. Reconciliation of segment assets to Group assets

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Segment assets . . . . .	1,837,984	1,868,754
Reconciliation Group holdings/other and consolidation . . . . .	69,327	103,223
Other non-current assets . . . . .	42,231	60,332
Current assets . . . . .	1,490,902	1,255,106
<b>Total assets, Group . . . . .</b>	<b><u>3,440,444</u></b>	<b><u>3,287,415</u></b>

#### 42.4. Information by country

in € 000s	Sales developments by the business premises		Non-current assets	
	2016	2015	Dec. 31, 2016	Dec. 31, 2015
Germany . . . . .	532,138	482,838	551,812	577,247
Russian Federation . . . . .	265,459	315,755	234,046	192,230
United Kingdom . . . . .	259,369	252,383	470,204	525,101
Italy . . . . .	201,389	189,183	35,809	38,414
Spain . . . . .	117,084	117,190	61,312	61,687
Other regions . . . . .	763,781	757,780	551,893	575,958
<b>Total, Group . . . . .</b>	<b><u>2,139,220</u></b>	<b><u>2,115,129</u></b>	<b><u>1,905,076</u></b>	<b><u>1,970,637</u></b>

In the presentation of sales by the company's business premises, sales to third parties are shown according to the invoicing company's registered office of the countries listed.

Disclosures on assets by country relate to parts of the non-current assets (intangible assets, property, plant and equipment).

#### 42.5. Information about major customers

In accordance with IFRS 8.34, a company must provide notification when sales revenues from business activities from a single external customer amount to at least 10% of the company's total sales revenues. As in the previous year, this related to no customer in the reporting year.

### 43. Contingent liabilities

Contingent liabilities describe possible obligations with respect to third parties which result from past events and which may lead to a future outflow of resources depending on specific events. As of the balance sheet date, these contingent liabilities were considered improbable and are therefore not accounted.

STADA has contingent liabilities, among other things, in connection with patent risks for certain active pharmaceutical ingredients and associated pending or impending proceedings. The resulting possible obligations amounted to approx. € 12.9 million (previous year: € 12.4 million). The development compared with the previous year was primarily attributable to the elimination of possible liabilities in the amount of € 5.1 million, but also possible liabilities in the amount of € 4.5 million being recognized. Furthermore, a changed estimation relating to the high imminent outflow of resources for patent risks, which existed in the previous year, led to a further increase of contingent liabilities in the amount of € 1.1 million.

Provisions were not created for contingent liabilities as the probability of an outflow of assets is under 50%. Outflows potentially resulting from these risks would generally be short-term.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 44. Other financial obligations

In addition to the contingent liabilities, there were other future financial obligations, which can be broken down as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Operating lease liabilities . . . . .	69,111	81,288
Other financial obligations . . . . .	42,460	33,634
<b>Total . . . . .</b>	<b><u>111,571</u></b>	<b><u>114,922</u></b>

Liabilities from operating leases relate particularly to IT equipment and vehicles. In addition, there are liabilities from long-term rental agreements for office buildings with an average contract term of four years.

The total of future minimum lease payments under operating leases amounted to € 69.1 million as of the end of the financial year (previous year: € 81.3 million) and can be broken down according to remaining term as follows:

in € 000s	Operating leases Dec. 31, 2016	Dec. 31, 2015
Remaining terms up to 1 year . . . . .	28,673	32,151
Remaining terms over 1 year to 5 years . . . . .	37,860	39,473
Remaining terms over 5 years . . . . .	2,578	9,664
<b>Total . . . . .</b>	<b><u>69,111</u></b>	<b><u>81,288</u></b>

Lease payments in the amount of € 32.4 million (previous year: € 30.5 million) were recognized as an expense in financial year 2016.

There is still a guarantee amounting to € 25.0 million towards Hospira Inc., Lake Forest, Illinois, USA, in connection with a supply agreement between Hospira and the shares in the associate BIOCEUTICALS Arzneimittel AG which are recognized under the equity method.

STADA, as guarantor, has continued to recognize this guarantee as a financial guarantee in accordance with IAS 39 with a fair value in the amount of € 0.3 million in the reporting year (previous year: € 0.3 million). Utilization of this guarantee granted is currently not expected.

Furthermore, additional guarantees assumed by the STADA Group are included in other financial liabilities, among other things.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments

#### 45.1. Carrying amounts, valuation rates and fair values according to valuation categories

The following disclosures are made on carrying amounts, valuation rates and fair values by valuation category, whereby the following abbreviations are used for the valuation categories pursuant to IAS 39: LaR (loans and receivables), HtM (held-to-maturity investments), AfS (available-for-sale financial assets), FAHfT (financial assets held for trading), FLHfT (financial liabilities held for trading) and FLAC (financial liabilities measured at amortized cost).

in € 000s	Valuation rate balance sheet in accordance with IAS 39						Valuation rate balance sheet in accordance with IAS 39						
	Carrying amount Dec. 31, 2016	Valuation category pursuant to IAS 39	Fair value not included in the income statement			Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2016	Carrying amount previous year	Fair value not included in the income statement			Valuation rate in accordance with IAS 17	Fair Value Dec. 31, 2015
			Amortized cost						Amortized cost				
<b>Assets</b>													
Cash and cash equivalents . . . . .	352,580	LaR	352,580	—	—	—	352,580	143,178	143,178	—	—	—	143,178
Trade accounts receivable . . . . .	489,071	LaR	489,071	—	—	—	489,071	485,901	485,901	—	—	—	485,901
Available-for-sale financial assets . . . . .	2,236	AfS	2,236	—	—	—	2,236	1,339	1,339	—	—	—	1,339
Derivative financial assets without hedging relationship . . . . .	9,914	FAHfT	—	—	9,914	—	9,914	27,461	—	—	27,461	—	27,461
Other financial assets . . . . .	34,416	LaR	34,416	—	—	—	34,416	55,536	55,536	—	—	—	55,536
<b>Equity and liabilities</b>													
Trade accounts payable . . . . .	336,844	FLAC	336,844	—	—	—	336,844	326,869	326,869	—	—	—	326,869
Amounts due to banks . . . . .	116,468	FLAC	116,468	—	—	—	117,531	167,290	167,290	—	—	—	165,045
Promissory note loans . . . . .	707,459	FLAC	707,459	—	—	—	746,076	545,921	545,921	—	—	—	577,812
Bonds . . . . .	646,830	FLAC	646,830	—	—	—	665,138	645,673	645,673	—	—	—	659,125
Liabilities financial leasing . . . . .	3,316	n/a	—	—	—	3,316	3,316	2,211	—	—	—	2,211	2,211
Derivative financial liabilities with hedging relationship . . . . .	—	n/a	—	—	—	—	—	1,273	—	1,273	—	—	1,273
Derivative financial liabilities without hedging relationship . . . . .	11,869	FLHfT	—	—	11,869	—	11,869	3,338	—	—	3,338	—	3,338
Other financial liabilities . . . . .	202,763	FLAC	202,763	—	—	—	202,763	219,172	219,172	—	—	—	219,172
<b>Thereof aggregated according to valuation categories in accordance with IAS 39</b>													
Loans and receivables . . . . .	876,067	LaR	876,067	—	—	—	876,067	684,615	684,615	—	—	—	684,615
Available-for-sale financial assets . . . . .	2,236	AfS	2,236	—	—	—	2,236	1,339	1,339	—	—	—	1,339
Financial assets held for trading . . . . .	9,914	FAHfT	—	—	9,914	—	9,914	27,461	—	—	27,461	—	27,461
Financial liabilities measured at amortized cost . . . . .	2,010,364	FLAC	2,010,364	—	—	—	2,068,352	1,904,924	1,904,924	—	—	—	1,948,022
Financial liabilities held for trading . . . . .	11,869	FLHfT	—	—	11,869	—	11,869	3,338	—	—	3,338	—	3,338

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

Since cash and cash equivalents as well as trade receivables mainly have short remaining terms, their carrying amounts as of the closing date correspond approximately to the fair value.

Deviations of the fair values from the carrying amounts occur as shown in the chart above in the case of promissory note loans, bonds, as well as liabilities to banks. The cash flows calculated by means of the current yield curve were discounted to the measurement date to determine the fair values.

Available-for-sale financial assets are primarily the carrying amounts of those shares in non-consolidated investments which are entirely measured at amortized cost for lack of available market prices.

The fair values of remaining financial receivables as well as of held-to-maturity financial investments with remaining terms of more than a year correspond to the present values of the payments connected with the assets taking into consideration the respective current interest parameters that reflect market and partner-related changes in the conditions and expectations. Trade payables as well as remaining financial liabilities also regularly have short remaining terms so that the recognized values approximate the fair values.

For the disclosures according to class of financial instrument necessary in accordance with IFRS 7, STADA defines each valuation category as a class.

The table below shows how the valuation rates of financial instruments measured at fair value were determined for the respective classes of financial instruments:

Fair values by levels of hierarchy in € 000s on a recurring basis	Level 1 Quoted prices in active markets		Level 2 Valuation methods with input parameters observable in the market		Level 3 Valuation methods with input parameters not observable in the market	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Financial assets held for trading (FAHfT)						
• Currency forwards . . . . .	—	—	4	—	—	3,118
• Interest rate/currency swaps . . . . .	—	—	—	—	9,910	24,343
Financial liabilities held for trading (FLHfT)						
• Currency forwards . . . . .	—	—	8,507	—	—	9
• Interest rate/currency swaps . . . . .	—	—	—	—	3,362	3,329
Derivative financial liabilities with hedging relationship						
• Cash flow hedges . . . . .	—	—	—	—	—	1,273

In the context of the preparation of the financial statements, STADA reviews the allocation to the respective hierarchy levels according to information available on the determination of the fair values. If the need for reclassification is determined, the reclassification is carried out as of the beginning of the reporting period. In the financial year, there were no reclassifications among the respective hierarchy levels.

The fair values are analyzed in the context of the preparation of the financial statements. For this purpose, market comparisons and change analyses are carried out.

Derivative financial assets (FAHfT) and derivative financial liabilities (FLHfT) include positive or negative market values of derivative financial instruments (interest rate/currency swaps and foreign exchange swaps) not part of a hedging relationship. The fair values of currency forwards were calculated using financial mathematics based on current market data provided by a reputable information service, such as spot exchange rates or swap rates, in one system according to standardized procedures. In the previous year, the fair values were determined using appropriate valuation models by external third parties. This continued to apply for interest rate/currency swaps in the year under review. This includes the application of discounted cash flow methods, which are largely based on input parameters observable in the market. The cash flows which are already fixed or calculated by means of the current yield curve are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the balance sheet date. The same applies for the calculation of the fair values of the derivative financial

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

liabilities with a hedging relationship, which reflect the negative market values of the interest rate swaps in the previous year used as hedging instruments.

As STADA utilizes pricing information from external third parties without further correction in the determination of the fair value, and therefore does not produce any quantitative, non-observable input factors, the option of IFRS 13 to waive the disclosure of quantitative information on such input factors is taken.

Financial assets and liabilities allocated to hierarchy level 3 and recognized at fair value developed as follows in financial year 2016:

in € 000s	Financial assets measured at fair value	Financial liabilities measured at fair value
<b>Balance as of Jan. 1, 2016</b>	<b>27,461</b>	<b>– 4,611</b>
Reclassification from level 2 . . . . .	—	—
Currency changes . . . . .	—	—
Total result . . . . .	– 32,436	524
• in the income statement . . . . .	– 32,436	– 749
• directly in equity . . . . .	—	1,273
Additions . . . . .	—	—
Realizations . . . . .	14,885	725
Reclassification in level 2 . . . . .	—	—
<b>Balance at December 31, 2016 . . . . .</b>	<b><u>9,910</u></b>	<b><u>– 3,362</u></b>
<b>Income recognized through profit or loss . . . . .</b>	<b>– 32,436</b>	<b>– 749</b>
Other income/other expenses . . . . .	– 24,132	– 212
thereof		
• attributable to assets/liabilities held as of the reporting date . . . .	– 3,024	– 239
Financial result . . . . .	– 8,304	– 537
thereof		
• attributable to assets/liabilities held as of the reporting date . . . .	– 358	205



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Disclosures about financial instruments (Continued)

Financial assets and liabilities allocated to hierarchy level 3 and measured at equity developed as follows as compared to the previous year:

in € 000s	Financial assets measured at fair value	Financial liabilities measured at fair value
<b>Balance as of Jan. 1, 2015</b>	<b>33,250</b>	<b>–3,124</b>
Reclassification from level 2 . . . . .	—	—
Currency changes . . . . .	—	—
Total result . . . . .	–782	–1,728
• in the income statement . . . . .	–782	–3,120
• directly in equity . . . . .	—	1,392
Additions . . . . .	—	—
Realizations . . . . .	–5,007	241
Reclassification in level 2 . . . . .	—	—
<b>Balance at December 31, 2015 . . . . .</b>	<b><u>27,461</u></b>	<b><u>–4,611</u></b>
<b>Income recognized through profit or loss . . . . .</b>	<b>–12,804</b>	<b>–3,120</b>
Other income/other expenses . . . . .	6,826	–2,890
thereof		
• attributable to assets/liabilities held as of the reporting date . . . .	8,302	–2,653
Financial result . . . . .	–7,609	–230
thereof		
• attributable to assets/liabilities held as of the reporting date . . . .	–7,332	–231

#### 45.2. Net earnings from financial instruments by valuation category

Net earnings recognized through profit or loss from financial assets and liabilities can be broken down as follows:

Net earnings by valuation category in € 000s	From interest and dividends	From subsequent measurement			from disposals	Net earnings	
		at fair value	Currency translation	Value adjustment		Dec. 31, 2016	Dec. 31, 2015
Loans and receivables (LaR) . . . . .	2,716	—	32,236	–5,972	—	28,980	–46,085
Available-for-sale financial assets (AfS) . . . . .	24	—	—	–3,450	—	–3,426	3
Financial assets held for trading (FAHfT) . . . . .	–1,055	2,296	—	—	–36,307	–35,066	–5,789
Financial liabilities measured at amortized cost . . . . .	–39,120	—	8,595	—	—	–30,525	–54,414
Financial liabilities held for trading (FLHfT) . . . . .	–686	–8,542	—	—	–19,873	–29,101	–15,617
<b>Total . . . . .</b>	<b><u>–38,121</u></b>	<b><u>–6,246</u></b>	<b><u>40,831</u></b>	<b><u>–9,422</u></b>	<b><u>–56,180</u></b>	<b><u>–69,138</u></b>	<b><u>–97,453</u></b>

The disclosure of interest from financial instruments is made in financial income and financial expenses in the interest result. Dividends received are disclosed in investment income. With the exception of the valuation results from interest rate/currency swaps and/or currency swaps recognized at fair value through profit or loss, which are reported under financial income or financial expenses and partially also in the currency translation result, disclosure of the remaining components of net earnings is made in other income or other expenses. Earnings from the disposal of financial instruments relate to currency swaps expired in financial year 2016 and the partial fulfillment of cross-currency swaps.

Valuation results from financial assets held for sale and cash flow hedges, which are reported under other comprehensive income in equity, are not included in this presentation as they had no effect on income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management

#### 46.1. Principles of risk management

The basic principles of financial policy and of financial risk management are determined or confirmed at least once annually by the Executive Board in the context of the budget process. Furthermore, all transactions above a certain limit determined to be relevant by the Executive Board must first be approved by the Executive Board. The Executive Board is also regularly informed of the nature, scope and amount of current risks.

#### 46.2. Currency risks

STADA's Group and balance sheet currency is euro. Due to the international alignment of business activities, STADA is subject to risks arising from exchange rate fluctuations.

On the one hand, these risks consist of potential changes in value, especially of receivables and liabilities in a currency other than the respective functional currency as a result of exchange rate fluctuation (transaction risk).

However, STADA is only subject to this risk to a limited extent, as the company counters risks from currency-related fluctuations, alongside natural hedges, through the use of derivative financial instruments, which are used to hedge currency risks from operating activities, financial transactions and investments. In the reporting year, STADA made use of foreign-exchange futures contracts and interest / currency swaps. The maturity dates of futures contracts are thereby selected to match the Company's anticipated cash flows. The remaining term of the contracts is currently up to one year.

In the context of consolidated financial statements, on the other hand, exchange rate fluctuations lead to an accounting effect as a result of the conversion of the balance sheet items as well as the conversion of earnings and expenses of international Group companies with a different functional currency than euro (translation risk). The appreciation of the euro as compared to the other currencies is generally negative and devaluation is generally positive.

STADA determines quantitative disclosures on risks in connection with currency changes by means of aggregating all of the Group companies' foreign currency items that are not denominated in the respective Group company's functional currency. In case of hedging transactions they are compared with the positive or negative balances from the aggregation. This results in the subsequent material outstanding foreign currency items as of the respective reporting dates, which in case of a change to the foreign currency item

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management (Continued)

due to a 10% appreciation or a 10% depreciation of the euro in comparison respective functional currency are as follows:

in € 000s	Dec. 31, 2016			Dec. 31, 2015		
	Kazakhstani tenge	US dollar	Ukrainian hryvnia	Kazakhstani tenge	Russian ruble	Ukrainian hryvnia
Outstanding foreign currency item . . . . .	+1,003	– 27,799	+5,651	– 16,944	+45,441	– 17,117
Income (+) / expense (–) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	– 2,126	+ 2,780	– 3,089	– 1,694	+ 1,341	– 3,721
Income (+) / expense (–) from a depreciation of the euro in comparison to the respective functional currency by 10% . . . . .	+ 2,126	– 2,780	+ 3,089	+ 1,694	– 1,341	+ 3,721
Equity increase (+) / equity reduction (–) from an appreciation of the euro in comparison to the respective functional currency by 10% . . . . .	– 2,552	+ 2,796	– 2,669	– 2,053	– 2,054	– 3,740
Equity increase (+) / equity reduction (–) from a devaluation of the euro in comparison to the respective functional currency by 10% . . . . .	+ 2,552	– 2,796	+ 2,669	+ 2,053	+ 2,054	+ 3,740

Here, any currency risk is isolated, i.e. it is taken into account without mutual dependencies.

The outstanding foreign currency items in Kazakhstani tenge, US dollar and Ukrainian hryvnia relate to a balance from international Group companies in euro and outstanding foreign currency reserves in Kazakhstani tenge, US dollar and Ukrainian hryvnia. The risk in connection with the outstanding foreign currency reserves in euro, from the Group's perspective, results from the functional currency of the respective international Group company. Overall, based on outstanding foreign currency items as of the reporting date, an appreciation or a devaluation of the respective functional currency by 10% compared to the currencies of relevance for the Group would have led to an effect on earnings in the amount of an expense of € 2.6 million (previous year: € 6.8 million) or in the amount of earnings of € 2.6 million (previous year: € 6.8 million).

#### 46.3. Interest rate risks

STADA is subject to interest risks from financial assets as well as financial debts, primarily in the Euro zone and Russia.

In order to minimize the effects of significant interest rate fluctuations, STADA manages the interest rate risk for the financial liabilities denominated in euro with hedging transactions. In financial year 2016, to hedge the interest rate risk, there were cash flow hedges in the form of interest rate swaps in the first six months. Taking into account these hedging transactions, an average of 85% (previous year: 85%) of financial liabilities denominated in euro and 100% (previous year: 100%) of those denominated in ruble had fixed interest rates in 2016.

STADA calculates existing interest rate risks using sensitivity analyses, which show the effects of changes in market interest rates on interest payments, interest income and expenses as well as equity. The following factors—if relevant—are generally included in the calculation:

- changes in the market interest rate of interest rate derivatives designated as hedging instruments in the context of cash flow hedges,
- changes in the market interest rate of original financial liabilities with variable interest rates that are not hedged against interest rate risks, and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management (Continued)

- changes in the market interest rate of interest rate derivatives not part of a hedging relationship.

in € million	Dec. 31, 2016	Dec. 31, 2015
Income (+) / expense (–) from an increase in the market interest rate level of 100 basis points . . . . .	– 1.4	– 0.7
Income (+) / expense (–) from a decrease in the market interest rate level of 100 basis points . . . . .	+0.6	– 0.7
Equity increase (+) / equity reduction (–) from an increase in the market interest rate level of 100 basis points . . . . .	—	+0.3
Equity increase (+) / equity reduction (–) from a decrease in the market interest rate level of 100 basis points . . . . .	—	– 0.3

#### 46.4. Default risks

STADA is exposed to a default risk in its operating business or as a result of financing activities if contracting parties fail to meet their obligations. Alongside the implementation of appropriate credit management processes, such transactions are generally only concluded with counterparties of impeccable financial standing to avoid default risks in financing activities.

Default risks also exist as a result of the supply of goods and services. STADA therefore strives to maintain business relations only with partners of impeccable financial standing. In addition, STADA partly uses suitable measures such as guarantees, loan insurances or the transfer of assets to safeguard itself against default risk. Overdue receivables in the operating area are continuously monitored and potential default risks are anticipated through the creation of valuation adjustments. In addition, there is the risk that in a difficult economic and financial environment, national health care systems delay or fail to make payments to STADA or business partners of STADA and that, as a result, directly or indirectly increased default risks arise.

STADA's maximum credit default risk is calculated from the carrying amounts of the financial assets accounted. In addition, STADA granted guarantees, which amounted to a total nominal volume of € 25.3 million (previous year: € 25.3 million) as of the reporting date (see Note 44.). STADA has various forms of collateral for credit securities such as mortgages, bank or corporate guarantees, assignments of receivables and pledged inventories. Furthermore, there is commercial credit insurance for certain markets and customers.

#### 46.5. Liquidity risks

Liquidity risks may result, for example, from the loss of existing cash items, lack of availability of credit, reduced access to financing markets or fluctuation in the operational development of business. The goal of the liquidity management is to ensure solvency and financial flexibility of the STADA Group at all times by way of maintaining a sufficient supply of liquidity reserves and having free credit lines. STADA finances itself with short-term and long-term borrowings from banks, promissory note loans, bonds and factoring. Furthermore, STADA has solid operating cash flow and further bilateral credit contracts with various banks (credit lines), which can be utilized as needed.

#### 46.6. Derivative financial instruments and hedging instruments

STADA counters risks from fluctuations in cash flow with derivative financial instruments, which are exclusively used to hedge interest and currency risks resulting from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculation purposes.

In financial year 2016, there are cash flow hedges exclusively in the form of payer interest rate swaps in the first six months. Here, variable interest payments were transformed into fixed interest payments and the cash flow risk of variable interest liabilities is thus hedged. In the context of these hedging relationships,

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 46. Risk management, derivative financial instruments and disclosures on capital management (Continued)

interest rate related cash flow changes of the hedged items are netted with cash flow changes of interest rate swaps.

In financial year 2016, no new payer interest-rate swaps were designated as cash flow hedges in order to secure interest payments from promissory note loans. The payer interest rate swap, accounted in the previous year, has expired in the current reporting year.

The total volume of currency and interest rate related derivatives is comprised as follows:

in € 000s	Dec. 31, 2016		Dec. 31, 2015	
	Nominal value	Fair Value	Nominal value	Fair Value
<b>Derivatives without hedging relationship</b>				
Interest rate/currency swaps . . . . .	48,621	6,548	69,337	21,015
Currency swaps . . . . .	188,634	–8,503	151,540	3,109
<b>Derivatives with hedging relationship</b>				
Interest rate swaps . . . . .	—	—	66,500	–1,273
thereof				
• fixed rate payer . . . . .	—	—	66,500	–1,273
• fixed rate recipient . . . . .	—	—	—	—
<b>Total . . . . .</b>	<b>237,255</b>	<b>–1,955</b>	<b>287,377</b>	<b>22,851</b>

All of the above hedging relationships presented above were effective until expiration. All changes in the fair value of the derivative hedging instruments were therefore recognized directly in equity under “Provisions for cash flow hedges” with no effect on profit or loss. In financial year 2016, the resulting earnings amounted to € 0.9 million after consideration of deferred taxes (previous year: € 1.1 million).

#### 46.7. Disclosures on capital management

The objectives of the STADA capital management are the safeguarding of the business operation, the creation of a solid equity base for financing profitable growth as well as guaranteeing attractive dividend payments and the capital service. The STADA capital management consistently aims for the Group companies to have an equity basis that corresponds to the local requirements. When implementing and checking the Group’s capital and liquidity the legal requirements are taken into account.

Capital is monitored on the basis of net debt, which results from current and non-current financial liabilities minus cash and cash equivalents as well as available-for-sale securities. An important key figure for capital management at STADA is the net debt to adjusted EBITDA ratio, which amounted to 2.8 in financial year 2016 (previous year: 3.1).

In this connection, the net debt and net debt to adjusted EBITDA ratio were as follows:

in € 000s	Dec. 31, 2016	Dec. 31, 2015
Non-current financial liabilities . . . . .	1,336,414	1,084,213
Current financial liabilities . . . . .	134,343	274,672
<b>Gross debt . . . . .</b>	<b>1,470,757</b>	<b>1,358,885</b>
cash, cash equivalents and “available-for-sale” securities . . . . .	352,580	143,178
<b>Net debt . . . . .</b>	<b>1,118,177</b>	<b>1,215,707</b>
<b>EBITDA (adjusted) . . . . .</b>	<b>405,750</b>	<b>389,385</b>
<b>Net debt to adjusted EBITDA ratio . . . . .</b>	<b>2.8</b>	<b>3.1</b>

#### 47. Related party transactions

In the scope of the ordinary course of business, STADA Arzneimittel AG and/or its consolidated companies have entered into related party transactions. In accordance with IAS 24, “related parties” refers

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47. Related party transactions (Continued)

to directly or indirectly controlled subsidiaries that are not consolidated due to lack of material significance, associates and joint ventures as well as persons in key positions and their close relatives. In principle, all trades are settled with related companies and natural persons at market-rate conditions.

#### 47.1. Transactions with related persons

Persons in key positions are the members of governing bodies of STADA Arzneimittel AG, the remuneration of whom, including further information on the principles of the remuneration system, is presented in detail in the Group Management Report (see “Remuneration Report”), as well as the summary in Note 47. in relation to quantitative disclosures.

In the course of their normal professional activities, individual members of the Supervisory and Advisory Boards who are self-employed have business relations with STADA. These are not significant in regards to volume and nature.

In view of the fact that Steffen Retzlaff, the son of former Chairman of the Executive Board Hartmut Retzlaff, focuses on his responsibilities as Senior Vice President of the region Asia/Pacific & MENA, his other mandates—with the exception of his position as member of the Board of Directors of STADA MENA DWC-LLC and STADA Pharmaceuticals (Asia) Ltd.—ended in June 2016.

#### 47.2. Transactions with related companies

<u>in € 000s</u>	<u>Dec. 31, 2016</u>	<u>Dec. 31, 2015</u>
<b>Trade accounts receivable</b>		
Non-consolidated subsidiaries / joint ventures . . . . .	6,297	372
Associates . . . . .	—	202
Joint ventures . . . . .	—	—
Other investors . . . . .	626	745
<b>Trade payables</b>		
Non-consolidated subsidiaries / joint ventures . . . . .	3,753	113
Associates . . . . .	17	1
Joint ventures . . . . .	—	—
Other investors . . . . .	14	—

Expenses and income essentially related to related party transactions as follows:

<u>in € 000s</u>	<u>2016</u>	<u>2015</u>
<b>Sales</b>		
Non-consolidated subsidiaries/joint ventures . . . . .	6,585	—
Associates . . . . .	—	62
Joint ventures . . . . .	—	—
Other investors . . . . .	1,521	1,575
<b>Interest income</b>		
Non-consolidated subsidiaries/joint ventures . . . . .	281	3
Associates . . . . .	—	8
Joint ventures . . . . .	—	—
Other investors . . . . .	—	—
<b>Interest expense</b>		
Non-consolidated subsidiaries/joint ventures . . . . .	—	—
Associates . . . . .	3	1
Joint ventures . . . . .	—	—
Other investors . . . . .	—	—



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47. Related party transactions (Continued)

In addition, the following disclosures on related party transactions are made:

STADA continues to provide the associate BIOCEUTICALS Arzneimittel AG with a credit line facility with an interest rate that is partly usual for risk capital and which was not utilized as of December 31, 2016, as in the previous year.

There is a service contract with BIOCEUTICALS Arzneimittel AG, as well as distribution rights for Epo-zeta in Germany granted by BIOCEUTICALS Arzneimittel AG to, among others, cell pharm Gesellschaft für pharmazeutische und diagnostische Präparate mbH. In some other European countries (such as Serbia or Russia, for example), a local STADA-owned subsidiary can also receive or has already received a local sales license at the same time.

Furthermore, STADA also has business relations with its fellow partner of the Chinese subsidiary STADA Import/Export International Ltd. As of the reporting date, outstanding loan liabilities in the amount of € 0.6 million resulted from this business relationship.

### 48. Remuneration of the Executive Board and the Supervisory Board

The aggregate remuneration of the Executive Board and the Supervisory Board including further information on the principles of the remuneration system are presented in detail in the Group Management Report (see “Remuneration Report”).

In summary, the following disclosures regarding the remuneration of the Executive Board and Supervisory Board at STADA Arzneimittel AG are made according to IAS 24 in consideration of the disclosure requirements of Section 314 (1) no. 6a sentence 1–4 of the German Commercial Code:

in € 000s	Fixed and variable current remuneration		Termination benefits		Expenses for pension commitments earned in the current year		Total remuneration in accordance with IFRS	
	2016	2015	2016	2015	2016	2015	2016	2015
Members of the Executive Board . . . . .	7,734 <sup>(1)</sup>	4,937 <sup>(2)</sup>	7,138 <sup>(3)</sup>	—	—	—	14,872	4,937
Members of the Supervisory Board . . . . .	1,072	1,073	—	—	—	—	1,072	1,073

(1) This includes the final calculation of the multi-year variable long-term special remuneration “long-term targets 2016” (year of target achievement), however only for the period of the actual implementation of the contracts, on which the remuneration is based, up to December 31, 2015 in the total amount of € 2,052,000.

(2) No progress payments on the variable long-term special remuneration were made for financial year 2015.

(3) € 1,253,000 thereof is attributable to the continued salary payment and € 5,885,000 to a severance payment in connection with the end of the Executive Board appointment of Mr. Retzlaff as of August 15, 2016.

The variable current remuneration of Executive Board members, reported within other liabilities, includes a share-based payment as a long-term oriented remuneration component, which is paid in cash. The fair value of the share-based payment was calculated using the Monte Carlo model. As of December 31, 2016, the expense for the share-based payment amounted to € 1.0 million (previous year: € 0).

Remuneration to former members of the Executive Board amounted to a total of € 297,000 in financial year 2016. The present values of pension commitments for former Executive Board members amounted to € 52,113,000 as of December 31, 2016.

There were no loans granted to members of the Executive Board and Supervisory Board at STADA Arzneimittel AG as of the reporting date. Nor has STADA taken on any contingent liabilities for the benefit of the members of governing bodies of STADA Arzneimittel AG.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49. Fees for the auditor

In financial year 2016, the following professional fees were recognized as expenses for services rendered by the auditor of the consolidated financial statements, PKF Deutschland GmbH:

in € 000s	2016	2015
Fees for the auditor . . . . .	617	506
• thereof for audits . . . . .	370	348
• thereof for other confirmation services . . . . .	100	142
• thereof for other services . . . . .	147	16
• thereof for tax consultancy services . . . . .	—	—

The fees for audits relate to payment for the audit of the consolidated financial statements as well as the statements of STADA Arzneimittel AG and its German subsidiaries at the end of the financial year.

Other confirmation services include the review of the interim consolidated financial statements of June 30 of the corresponding financial year.

Other services include diverse consulting services.

### 50. Corporate governance

The declaration on the German Corporate Governance Code prescribed by Article 161 of the German Stock Corporation Act (AktG) was last issued by the Executive Board and Supervisory Board on March 2, 2017. The declaration is publicly available via the Company's website ([www.stada.de](http://www.stada.de) in German or [www.stada.com](http://www.stada.com) in English) and is also presented in the Annual Report.

### 51. Events after the reporting date

Events after the reporting date with a significant or possibly significant impact on the net assets, financial position and results of operations of the STADA Group:

- On January 23, 2017, the Supervisory Board announced the appointment of Dr. Barthold Piening as a full Member of the STADA Executive Board with effect from April 1, 2017. He will assume Executive Board responsibility for Production, Research and Development, Biotechnology as well as Quality Assurance and Control.

### 52. Dividend

According to the German Stock Corporation Act, the distributable dividend is determined according to the distributable profit reported by STADA Arzneimittel AG in its annual financial statements prepared in accordance with the rules and regulations of the German Commercial Code. This amounted to € 67,032,635.51 as of December 31, 2016. The Executive Board of STADA Arzneimittel AG proposes that a dividend of € 0.72 per STADA share be appropriated from this distributable profit for financial year 2016. In financial year 2016, a dividend in the amount of € 0.70 per STADA share was distributed to shareholders from the distributable profit of financial year 2015.

Bad Vilbel, March 27, 2017



Dr. M. Wiedenfels  
Chairman  
of the Executive Board



H. Kraft  
Chief Financial,  
Marketing & Sales Officer

*The following auditor's report (Bestätigungsvermerk) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) on the consolidated financial statements and the group management report (Konzernlagebericht) of STADA Arzneimittel AG as of and for the financial year ended December 31, 2016. The group management report is neither included nor incorporated by reference in this offering memorandum.*

#### AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, comprising the balance sheet, the income statement, statement of comprehensive income, statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on these consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt, March 27, 2017

PKF Deutschland GmbH  
Wirtschaftsprüfungsgesellschaft



Arno Kramer  
German Public Accountant



Annika Fröde  
German Public Accountant

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**OFFERING MEMORANDUM**

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**Nidda Healthcare Holding GmbH**  
**€ 3½% Senior Secured Notes due 2024**

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