NON-BINDING ENGLISH TRANSLATION OF THE GERMAN ORIGINAL VERSION FOR CONVENIENCE PURPOSES ONLY

Audit Report

Audit of the Domination and Profit and Loss Transfer Agreement pursuant to § 293b AktG

between

STADA Arzneimittel Aktiengesellschaft
Bad Vilbel

and

Nidda Healthcare GmbH
Frankfurt am Main

ADKL AG
Wirtschaftsprüfungsgesellschaft
Düsseldorf

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Parameter	Value
Interest rate (before personal taxes)	0.92%
Unlevered beta factor	0.75
Market risk premium (after personal taxes)	6.00%
Levered costs of equity (after personal taxes, sustained)	6.43%
Sustained rate of growth	1.25%

Variation 2:

Parameter	Value
Base interest rate (before personal taxes)	0.92%
Unlevered beta factor	0.75
Market risk premium (after personal taxes)	5.50%
Levered costs of equity (after personal taxes, sustained)	5.92%
Sustained rate of growth	1.00%

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List of Abbreviations and Symbols

(Translation Note: The abbreviations follow the alphabetic order in the German original text for the sake of better comparability. Some abbreviations in the German text have no counterpart in the English text.)

€	Euro
AAB	General Terms and Conditions of Engagement (*Allgemeine Auftragsbedingungen*)
para.	paragraph
AG	German Stock Corporation (*Aktiengesellschaft*); also the magazine *Die Aktiengesellschaft*
AktG	German Stock Corporations Act (*Aktiengesetz*)
AKU	Working Group for Business Valuation (Arbeitskreis Unternehmensbewertung) at the IDW (predecessor to the FAUB)
AOC	Active Ownership Capital S.à r.l., Luxemburg
BaFin	Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), Bonn and Frankfurt am Main
BB	BetriebsBerater (publication)
BeckRS	Electronic data base of decisions published by the Verlag C.H. BECK oHG, Munich
Valuation Report	Expert Report of ValueTrust dated 18 December 2017 on the business value of STADA Arzneimittel Aktiengesellschaft in connection with the planned conclusion of a Domination and Profit and Loss Transfer Agreement between Nidda Healthcare GmbH and STADA Arzneimittel AG as of 2 February 2018
Valuation Expert	ValueTrust
Valuation subject	STADA
DPLTA	Domination and Profit and Loss Transfer Agreement
BGB	German Civil Code (*Bürgerliches Gesetzbuch*)
BGH	Federal Supreme Court of Justice (*Bundesgerichtshof*), Karlsruhe
BGHZ	Collection of the decisions of the BGH in civil matters (period publication)
BREXIT	Exit of Great Britain from the European Union
Budget Presentation	Presentation in which the central planning assumptions and the results of the respective planning unit are presented by the persons responsible for the planning and commented
BVerfG	German Constitutional Court (*Bundesverfassungsgericht*), Karlsruhe
BVerfGE	Collection of the decisions of the BVerfG (periodic publication)
BvR	Case number of a constitutional appeal to the BVerfG
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model (capital markets model based on the portfolio theory)
CDAX	Composite DAX (German stock index for the broadest market)

Co.	Compagnie (reference to multiple partners)
DCF method	Discounted cash flow method
DVFA-Recommendations	"Best Practice recommendations for business valuation" (*Best-Practice-Empfehlungen Unternehmensbewertung*) of the German Association for Financial and Analysis and Asset Management (*Deutsche Vereinigung für Finanzanalyse und Asset Management e.V.*), Frankfurt am Main
e.V.	Registered association (*Eingetragener Verein*)
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization of Goodwill
EBT	Earnings Before Taxes
EU	European Union
EUR	Euro (currency code pursuant to ISO 4217)
EuroSTOXX 600	Stock index
EV	Enterprise Value (total business value)
R&D	Research and Development
FAUB	Technical Committee for Business Valuation and Economics of the IDW (*Fachausschuss für Unternehmensbewertung und Betriebswirtschaft*)
Company	STADA
GewSt	Trade Tax (*Gewerbesteuer*)
GmbH	German company with limited liability (*Gesellschaft mit beschränkter Haftung*)
P&L	Profit and loss statement
HFA	Main professional committee of the IDW (*Hauptfachausschuss*)
HGB	German Commercial Code (*Handelsgesetzbuch*)
HRB	Commercial register, section B
Publ.	Publisher
GM	General shareholders' meeting
IDW	German Institute of Accountants (*Institut der Wirtschaftsprüfer in Deutschland e.V.*), Düsseldorf
IDW S 1	IDW Standard: Principles on Conducting Business Valuations (*Grundsätze zur Durchführung von Unternehmensbewertungen*) (IDW S 1 in the version 2008) dated 2 April 2008
IDW-FN	IDW Professional News (*IDW Fachnachrichten*) (magazine); today IDW Life)
IFRS	International Financial Reporting Standards
INN	International non-proprietary name
IT	Information technology
KESt	Withholding Tax on Investment Income (*Kapitalertragsteuer*)
KGaA	Limited Partnership with Stock (*Kommanditgesellschaft auf Aktien*)
KSt	German Corporate Income Tax (*Körperschaftsteuer*)

LG	District Court (*Landgericht*)
LLC	Limited Liability Company (US American legal entity with the features of a corporation combined with a partnership)
LLP	Limited Liability Partnership (partnership in British/US American law)
Ltd.	Limited (Anglo-Saxon corporate form comparable to the AG)
MDAX	Mid-Cap-DAX (German stock index)
Majority shareholder	Nidda Healthcare
MENA	Middle East & North Africa
m	Million(s)
bn	Billion(s)
MSCI Small Cap Europe	Stock index
MSCI World	Worldwide stock index
MSCI World Pharma, Biotech & Life Sciences	Worldwide stock index
n.a.	Not available or not applicable
Nidda BondCo	Nidda BondCo GmbH, Frankfurt am Main
Nidda Healthcare	Nidda Healthcare GmbH, Frankfurt am Main
Nidda Holding	Nidda Healthcare Holding GmbH, Frankfurt am Main (formerly Nidda Healthcare Holding AG)
NOPAT	Net Operating Profit After Taxes
no.	Number
NZG	*Neue Zeitschrift für Gesellschaftsrecht* (magazine)
N.V.	Naaamloze Venootschap (corporate form in the Netherlands and Belgium, comparable to the German stock corporation (AG)
oHG	German commercial partnership (*Offene Handelsgesellschaft*)
OLG	Court of Appeals (*Oberlandesgericht*)
OTC	Over The Counter (i.e.: pharmaceutical products which do not require prescription)
OTX	here: pharmaceutical products which require prescription
p.a.	*per annum* (annually)
peer group	Group of (listed) comparable companies
Pte. Ltd.	Private Limited Company (corporate form in Singapore, comparable to a GmbH)
QuintilesIMS	IQVIA Holdings Inc., Durham and Danbury/USA (present name of the market research institution)
approx.	approximately
ROCE	Return on Capital Employed
RX	In this report: pharmaceutical products requiring prescription
S&P Global	S&P Global Market Intelligence LLC, New York City/USA
p. / pp.	Page / Pages
S.A.	Société Anonyme (French corporate form comparable to the AG)

S.à r.l.	Société à responsabilité limitée (corporate form in the French speaking countries, comparable to the German company with limited liability (GmbH)
SAS	Société par Actions Simplifiée (corporate form in the French speaking countries, a simplified stock corporation)
SE	Societas Europaea (European corporation)
SKU	Stock Keeping Unit
SolZ	Solidarity surcharge (*Solidaritätszuschlag*)
STADA	STADA Arzneimittel Aktiengesellschaft, Bad Vilbel
STADA stock	Registered common shares of STADA
STADA Group	STADA together with its controlled companies within the meaning of § 17 AktG
STADA Vietnam	STADA Vietnam Joint Venture Co. Ltd., Ho Chi Minh City/Vietnam
SWOT	Strengths, Weaknesses, Opportunities and Threats (tool for strategic planning, developed by the Harvard Business School)
Hemofarm Sub-group	Hemofarm A.D., Vrsac/Serbia, together with the companies it controls within the meaning of § 17 AktG.
incl.	including
UK	United Kingdom of Great Britain and Northern Ireland
US	United States of America
USA	United States of America
ValueTrust	ValueTrust Financial Advisors SE, Munich
vaping	Used to stop smoking
Contract	DPLTA between STADA and Nidda Healthcare dated 19 December 2017
Contract Report	Joint Report of the Executive Board of STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, and the Managing Directors of Nidda Healthcare GmbH, Frankfurt am Main, pursuant to § 293a AktG concerning the Domination and Profit and Loss Transfer Agreement dated 19 December 2017
contract parties	Nidda Healthcare and STADA
WPg	*Die Wirtschaftsprüfung* (magazine)
WpÜG	Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*)
WpÜG-AngVO	Offer Regulation for the Securities Acquisition and Trading Act (*Wertpapiererwerbs- und Übernahmegesetz-Angebotsverordnung*)
e.g.	example given
ZIP	*Zeitschrift für Wirtschaftsrecht* (magazine)

A. Mandate and conduct of the mandate

Nidda Healthcare GmbH, Frankfurt am Main,[1] as the controlling company, and

STADA Arzneimittel Aktiengesellschaft, Bad Vilbel,[2]

as the controlled company, concluded a Domination and Profit and Loss Transfer Agreement within the meaning of § 291 para. 1 sentence 1 AktG[3] on [19 December 2017].[4] The validity of the Contract is subject to the reservation of approval of the general shareholders' meeting pursuant to § 293 para. 1 AktG[5] of STADA as well as the reservation of consent of the shareholders' meeting of Nidda Healthcare in corresponding application of § 293 para. 2. The shareholders' meeting of Nidda Healthcare approved the conclusion of the Contract on [19 December 2017]. The approving resolution of the GM of STADA is supposed to be adopted on 2 February 2018.

The outside shareholders of a controlled AG must be granted, at their election, an adequate guaranteed dividend payment pursuant to § 304 AktG or an adequate cash compensation pursuant to § 305 AktG. The Contract must especially be examined with regard to the adequacy of the guaranteed dividend and the compensation by one or more expert examiners.[6]

Under an order dated 21 September 2017,[7] the District Court[8] Frankfurt am Main – 5th Chamber for Commercial Matters°– chose us as the expert joint auditor for the audit of the intended DPLTA between Nidda Healthcare and STADA.[9]

The appointing order contains the requirement to expressly address specific points and provide discussion in the interest of increasing transparency and the acceptance of the examination in the Audit Report. We have listed the individual points in the Management Summary at the beginning of this Audit Report. We refer there to the corresponding sections in the Audit Report in which the issues are expressly addressed.

The guaranteed dividend and the compensation must generally be derived from the business value of STADA. STADA and Nidda Healthcare Holding AG, Munich,[10] the sole shareholder in Nidda Healthcare, engaged ValueTrust Financial Advisors SE, Munich,[11] to determine ranges of the business value of STADA on the basis of the valuation methods recognized in the practice of business valuation and the case law. ValueTrust supports the managing directors of Nidda Healthcare and the executive board of STADA in this regard when determining the adequate guaranteed dividend pursuant to § 304 AktG and the adequate compensation pursuant to § 305 AktG for each share in STADA.[12]

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1 "Nidda Healthcare" or the "majority shareholder".
2 "STADA", "the Company" or the "valuation subject"; together with its controlled companies within the meaning of § 17 AktG, the "STADA Group"; together with Nidda Healthcare, the "contracting parties".
3 "DPLTA".
4 "Contract"; see, Appendix 3.
5 "GM".
6 §§ 293b para. 1, 293e para. 1 sentence 2 AktG.
7 Case number 3-05 O 77/17; see, Appendix 1.
8 Landgericht, "LG.
9 §§ 293c para. 1, 293d para. 1 sentence1 AktG.
10 "Nidda Holding"; in the meantime transformed into a GmbH and with its registered office in Frankfurt am Main. Nidda Holding is the sole shareholder of Nidda Healthcare.
11 "ValueTrust" or the "Valuation Expert".
12 "STADA shares".

ValueTrust submitted on 18 December 2017 an "Expert Report on the Business Value of STADA Arzneimittel Aktiengesellschaft in connection with Planned Conclusion of a Domination and Profit and Loss Transfer Agreement between Nidda Healthcare and STADA Arzneimittel Aktiengesellschaft as of 2. February 2018"[13]. The parties to the contract are incorporating the discussion by ValueTrust in the Reference Valuation Report on the business value of STADA as well as on the adequate guaranteed dividend and the adequate compensation in full as the substance of their own report.

The "Contract Report – Joint Report of the Executive Board of STADA Arzneimittel Aktiengesellschaft, Bad Vilbel, and the Managing Directors of Nidda Healthcare GmbH, Frankfurt am Main, pursuant to § 293a German Stock Corporations Act about the Domination and Profit and Loss Transfer Agreement between STADA Arzneimittel Aktiengesellschaft and Nidda Healthcare GmbH – 19 December 2017" [14] contains a copy of the full version of the Valuation Report as Appendix 5.

After the initial examination of our independence and lack of bias as well as subsequently learning about our appointment by the court, we commenced the audit on 21 September 2017 and conducted through today [(21 December 2017)] primarily in our offices in Düsseldorf, and we applied §§ 293d, 293e AktG.

In addition, we repeatedly had the opportunity to conduct discussions with the chief financial officer of the Company, the persons responsible for the central planning in the areas of Corporate Accounting & Tax and Corporate Controlling as well as the members of the executive board and employees of the Valuation Expert in the offices of STADA in Bad Vilbel as well as at other locations. The referenced persons providing information[15] described to us and the representatives of the Valuation Expert the market and competitive environment, the business model and the strategy, the historic and current business situation as well as the planned accounts of the Stada Group, and they answered our questions. On 19 December 2017, we were also available to the members of STADA's supervisory board committee established for the conclusion of the DPLTA for questions concerning the conduct and the results of our audit. While conducting the audit, we also conducted numerous conference calls and bilateral telephone discussions.

The individual dates of the meetings on site and the conducted conference calls are listed with the time, location, our contact partners and the subject matter of the discussions in the form of a table in Appendix°2 to this Audit Report. Appendix 2 also contains the milestones for our work on the audit.

The subject of our audit is the Contract[16] and the adequacy of the proposed guaranteed dividend as well as the proposed compensation.[17]

In light of the large number of provided documents and in order to secure the appropriate confidentiality and an efficient conduct of the valuation and the audit, STADA established a virtual data room and gave

13 "Valuation Report".
14 "Contract Report".
15 See, Appendix 5 to the Valuation Report.
16 § 293b para. 1 AktG.
17 § 293e para. 1 sentence2 AktG.

us access starting on 24 October 2017. In addition, individual documents were exchanged in email correspondence, especially between the Valuation Expert and us.

Especially the following documents were submitted to us for our audit:

- Contract Report, including the contract of which a copy was attached to the Contract Report as Appendix 3
- Articles of Association (version dated 25 August 2017) and excerpt from the commercial register (accessed on 26 September 2017) for Nidda Healthcare
- Articles of Association (version dated 9 December 2016) and excerpt from the commercial register (accessed on 26 September 2017) of STADA
- Organigram with the structure of the Stada Group (status: 30 September 2017)[18]
- Minutes of the meetings of the supervisory board of STADA for the years 2016 and 2017 up to and including 29 August 2017
- "Binding Term Sheet" dated 29 November 2017 between STADA Pharmaceuticals (Asia) Ltd., Hong Kong, as the Seller and M.S.T. Pharm Company Ltd., Ho Chi Minh City/Vietnam, as well as Stadpharm Investment Pte. Ltd., Singapore, as the purchasers for a sale of shares in STADA-Vietnam Joint Venture Co. Ltd., Ho Chi Minh City/Vietnam
- Reports on the audit of the consolidated financial statements and group management reports of STADA prepared under the International Financial Reporting Standards[19] and the supplemental, applicable provisions in German commercial law pursuant to § 315a para. 1 HGB for the financial years 2014 to 2016, including the fully certified consolidated financial statements and consolidated group management report in each case attached as an annex
- Reports on the audit of the annual financial statements and combined management reports/group management reports of STADA for the financial years 2014 to 2016 prepared in accordance with the HGB, including the fully certified annual financial statements and combined management report attached in each case as an annex
- Unaudited interim report as of 30 September 2017 for the first nine months and the third quarter of the financial year 2017 for STADA
- Best estimate of STADA for the consolidated profit and loss statement,[20] consolidated balance sheet and consolidated cash flow statement for the financial year 2017 (status October 2017)
- Consolidated, integrated planned accounts of STADA and its significant subsidiaries prepared under IFRS[21] for the financial years 2018 to 2020, including the ancillary calculations and corresponding explanations contained there, especially the planning documents for the planning units,[22] as well as documents on the future strategy with regard to the development and marketing of biosimilars[23]
- "Commercial Due Diligence Report" dated 22 March 2017 prepared by McKinsey & Company
- "Offering Memorandum" dated 29 September 2017 from Nidda Holding and Nidda BondCo GmbH, Frankfurt am Main, on the issuance of bonds for the partial financing of the acquisition of shares as a consequence of a voluntary public takeover offer to the shareholders of STADA[24]
- Valuation Report

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18 Attached as Appendix 4 to this Report in the form prepared by the Valuation Expert.
19 "IFRS".
20 "P&L".
21 Adopted by the executive board on 29 November 2017 and approved by the supervisory board on 1 December 2017.
22 "Budget Presentation".
23 Pharmaceuticals with a biotechnologically produced active substance which is so similar with a previously patent protected pharmaceutical already offered in the market that it has the same proven therapeutic equivalency and is comparable with regard to safety and quality. Contrary to generics, it is not a synthetic imitation of a simple chain of molecules and instead is a biologically produced reconstruction of highly complex chains of molecules.
24 € 735 m Senior Secured Notes with a term until 2024 and a coupon of 3.5 % as well as € 340 m Senior Notes having a term until 2025 and a coupon of 5.0 %.

- Excerpts from the working papers of ValueTrust on the market and competitive environment, the analysis of the assets, financial position and earnings situation in the analyzed past, including adjustments and an analysis of planning accuracy, on the accuracy of the planned accounts, the determination of the future net income and the transition to the sustained results as well as other data relevant for the valuation, especially the determination of costs of capital, the valuation model to determine the value,[25] and the checks of reasonableness of the range of the business value, as it results under the IDW Standard: Principles on Conducting Business Valuations (IDW S°1 2008) dated 2 April 2008[26] published by the Institute of Accountants in Germany e.V. (IDW) Düsseldorf,[27] using alternative valuation approaches
- Information on the market and competitive environment

We also refer to additional publically accessible information, especially market studies and capital markets data. When determining the capital markets data, we were supported by, among others, the data delivered by the financial information service provider S&P Global Market Intelligence LLC, New York City/USA.[28] The Federal Financial Supervisory Authority, Bonn and Frankfurt am Main,[29] determined and provided information about the average stock exchange price required under the case law for determining a lower limit on the cash compensation.

The Contract, Contract Report and the Valuation Report were submitted to us prior to completion already in the form of a draft in each case.

When conducting the mandate, we took into account the statement HFA[30] 6/1988 "The Merger Examination under § 340b para. 4 AktG" (*Zur Verschmelzungsprüfung nach* § 340b para. 4 AktG) of the IDW applied accordingly,[31] and directly applied the IDW S 1.

The IDW S 1 is not a legal norm and accordingly especially not binding for the courts. The recommendations contained in the IDW S°1, however, are a main resource for courts when examining the adequacy of cash compensation and in order to be able to evaluate whether the respective approach in the fundamental, analytical determination of the business value was methodologically properly applied in the specific case.[32]

All information and evidence we requested were willingly provided.

The executive board of STADA and the managing directors of Nidda Healthcare each have issued to us a standard declaration of completeness and assured there in writing as of today's date that the explanations and information which are important for the audit of the Contract were, to their knowledge, in substance completely and correctly provided.

The results of our audit are based primarily on the examination of the documents of STADA, information from the persons designated to provide information to us as well as the information in the Valuation

[25] Excerpts as a so-called values copy.
[26] "IDW S 1".
[27] "IDW".
[28] "S&P Global".
[29] "BaFin".
[30] Main technical committee.
[31] The statement HFA 6/1988 was cancelled in 2013, but its substance still continues to be valid with regard to the statements there about the requirements for conducting an audit and reporting.
[32] See, Bundesgerichtshof ("BGH"), order dated 29. September 2015, II ZB 23/14, AG 2016, S. 135 et seq.

Report and the information provided by the Valuation Expert. In addition to the information we received in this manner, we have additionally conducted our own examinations and calculations.

We have recorded the type and extent of our actions for purposes of the audit in our working papers.

We commenced our audit work prior to completion of the Valuation Report by ValueTrust. This approach is common in the course of examining contracts and the adequacy and is recognized by the case law of the highest courts.[33] The reason for this approach lies in the necessity to issue a final judgment about the audit in a timely manner with the conclusion of the valuation work. There were no differences of opinion between the Valuation Expert and us in the final results. Findings in the audit were reflected in the valuation model.

The managing directors of Nidda Healthcare and the executive board of STADA are responsible for the proper content of the Contract Report.

We expressly also point out that we did not audit the bookkeeping, the consolidated financial statements, group management reports or the annual financial statements and management reports or the management of the involved companies. Such examinations are not the subject of our audit. The consistency of the submitted audited financial statements with the respective legal provisions has been fully certified by the auditors of the financial statements. We accordingly assume that the documents submitted to us constitute complete financial statements and that they are in accordance with the valuation provisions for purposes of accounting.

If there are material changes in the time between the completion of our audit (21 December 2017) and the planned point in time of adopting the resolution in the GM of STADA about the conclusion of the Contract (2 February 2018) compared to the assumptions when preparing the Valuation Report and this Audit Report, such changes would have to be taken into account when determining the adequate guaranteed dividend payment and the adequate cash compensation. We will obtain calculation statements on the date of the GM of STADA about this.

We are issuing the following Report about the results of our audit pursuant to § 293e AktG.

The present Audit Report is prepared exclusively for the initially purposes described at the beginning of this Report. This includes providing the Audit Report in advance of the GM of STADA that will adopt the resolution about the conclusion of the Contract[34] and submission to the respective court of jurisdiction.[35]

Any further disclosure of our Audit Report can only be in the full wording, including a written declaration about the purpose of the underlying mandate as well as the limits on disclosure of our Audit Report to third parties related to the mandate and the terms and conditions of liability, and is subject to our express written approval if the respective third party has previously declared for its part a binding

33 See Federal Supreme Court of Justice ("BGH"), order dated 29 September 2015, II ZB 23/14, AG 2016, pp. 135 et seq.
34 Including its publication on the internet pages of the Company or for other publications, display and measures in connection with the preparation and conduct of the GM.
35 Also in any court proceedings that might follow the GM.

obligation of confidentiality towards us in writing under the General Terms and Conditions of Engagement as supplemented by an individual agreement on liability.

The General Terms and Conditions of Engagement for Accountants and Accounting Firms (*Allgemeinen Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften*) in the version dated 1 January 2017 attached as Appendix 5 are determinative. Our responsibility towards the contracting parties and their shareholders is governed by § 293d para. 2 AktG in conjunction with § 323 HGB.

B. Subject, type and scope of the audit of the Contract

The subject, type and scope of the audit of the Contract are set forth in §§ 293b para. 1, 293e para. 1 sentence 2 AktG. Pursuant to § 293b para. 1 AktG, the subject of our audit is the corporate group agreement. The emphasis of the audit under § 293e para. 1 sentence 2 AktG involves the evaluation of the adequacy of the guaranteed dividend (§ 304 AktG) and the compensation (§ 305 AktG). Details about the content of the Audit Report for the Contract are set forth in § 293e para. 1 AktG.

We have accordingly examined in the formal part of our audit whether the Contract fully and correctly contains the elements required by law and, thus, corresponds to the provisions in the law. Secondly, we examined in the substantive part of our audit whether the proposed guaranteed dividend and the proposed compensation must be considered to be adequate upon taking into account the circumstances at STADA. We did not any further legal examination, especially with regard to the effects under tax law, just as we did not conduct any examination of the appropriateness of the Contract or the approach. The completeness and accuracy of the Contract Report are also not the subject of the audit of the Contract.

The HFA established in its statement HFA 6/1988 on the examination of a merger main principles for delineating the responsibilities between the executive board and the merger auditor and especially determined and according to which methods the adequacy must be examined. The recommendation contained in HFA 6/1988 are also applicable, according to the predominant view, for the audit of a contract under § 293e AktG and generally also continue to be correct after the standard was lifted. Therefore, we have used the sense of that standard as the basis for our examination.

The substantive audit accordingly extends to whether the methods forming the basis for calculating the guaranteed dividend and the compensation correspond to the generally recognized principles on conducting business valuations and whether the underlying data have been correctly determined and the estimates for the future appear reasonable. The auditor does not have the responsibility of itself conducting a business valuation needed for determining the guaranteed dividend and the compensation.

The expert auditor must report in writing about the result of the audit.[36] The Audit Report must conclude with a statement whether the proposed guaranteed dividend or the proposed compensation is adequate.[37]

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36 § 293e para. 1 sentence 1 AktG.
37 § 293e para. 1 sentence 2 AktG.

The report must also state,[38]

- according to which methods the guaranteed dividend and the compensation have been determined
- for which reasons the application of these methods is reasonable
- which guaranteed dividend or which compensation would in each case result when applying different methods if multiple methods have been applied; at the same time it is required to show which weight the various methods have when determining the proposed guaranteed dividend or the proposed compensation and which value were attributed to those methods and which special difficulties arose in the valuation.

Our Audit Report reflects the result of our examination of the adequacy of the proposed guaranteed dividend and the proposed compensation and presents in this context comprehensively the audit approach and the results of the audit in detail. With regard to the detailed numbers and the comprehensive reasons for the determination of elements in the results and values, we refer to the very comprehensive discussion in the Valuation Report attached as an annex to the Contract Report for the purpose of avoiding repetition.

The addressees of the report are supposed to be enabled to verify the adequacy of the payment of the guaranteed dividend payment and the cash compensation solely on the basis of our Audit Report, but they must refer as needed also to the Contract Report, especially the Valuation Report attached to the Contract Report, for further detailed information.

[38] § 293e para. 1 sentence 3 AktG.

C. Formal examination of the Domination and Profit and Loss Transfer Agreement

The minimum content of a DPLTA required under corporate law is set forth in §§ 291 et seq. AktG. Therefore, the examination of the completeness and correctness of the corporate group agreements relates to the general information about the contracting parties, the determination of the subject matter of the contract, the beginning and duration of the contract as well as the agreements on the guaranteed dividend payment and compensation.

Company name and registered office of the involved companies

The company name and the registered of the involved companies are stated in the DPLTA and correspond to the registration in the commercial registers for Nidda Healthcare and STADA.

Control (§ 1 of the Contract)

STADA submits the control of its company to Nidda Healthcare.[39] Nidda Healthcare is accordingly entitled to issue general directives to the executive board of STADA with regard to the management of the Company as well as directives in a specific situation, namely, also with regard to the preparation of the annual financial statements of STADA.[40] This right to issue directives does not extend to amending, maintaining or terminating the Contract.[41]

The executive board of STADA is required to comply with the directives of Nidda Healthcare.[42]

Since Nidda Healthcare is a pure holding company and the control of the Group lies with the shareholders of Nidda Healthcare, the Contract provides that Nidda Healthcare is entitled to authorize its direct or indirect shareholders to exercise the right Nidda Healthcare has to issue directives as legal representatives of Nidda Healthcare.[43]

STADA is only required to comply with the directives of direct or indirect shareholders of Nidda Healthcare upon submission of a corresponding power of attorney.[44] The liability of Nidda Healthcare under § 309 AktG in conjunction with § 278 BGB also continues exists in the case of representation in legal respects by Nidda Healthcare's direct or indirect shareholders.[45]

Due to reasons of legal certainty, the Contract provides that directives require the form of text or - if they are issued orally - that they must be confirmed in the form of text without undue delay if the executive board of STADA so requests.[46]

Submitting the control of the Company is a constitutive element in a domination agreement. The corresponding provisions in the Contract comply with these legal requirements.[47]

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39 See, § 1 para. 1 sentence 1 of the Contract.
40 See, § 1 para. 1 sentence 2 and 3 of the Contract.
41 See, § 1 para. 4 of the Contract.
42 See, § 1 para. 2 of the Contract.
43 See, § 1 para. 3 sentence 1 of the Contract.
44 See, § 1 para. 3 sentence 2 of the Contract.
45 See, § 1 para. 3 sentence 3 of the Contract.
46 See, § 1 para. 5 of the Contract.
47 §§ 291 para. 1 sentence 1, 299 and 308 AktG.

Transfer of profit (§ 2 of the Contract)

STADA undertakes to transfer its entire profit to Nidda Healthcare.[48] This provision is constituted for a profit and loss transfer agreement.[49]

Subject to establishing or dissolving reserves,[50] the maximum amount permissible under § 301 AktG in in its respectively applicable version must be transferred.[51] Under the current law, this is a maximum of the annual surplus resulting without the transfer of profit, reduced by any loss carry forward from the previous year and by the amount which must be placed in the statutory reserves under § 300 no. 1 AktG and the amount blocked for distributions under § 268 para. 8 HGB.[52]

STADA can place amounts from the annual surplus in other profit reserves with the consent of Nidda Healthcare issued in writing or in text form pursuant to § 126b BGB, to the extent this is permissible under commercial law and to the extent there are commercial reasons for this under a reasonable commercial assessment.[53] Reserves established in this manner can again be dissolved at the request of Nidda Healthcare and either used to offset any annual loss or they can be transferred as profit.[54] Other reserves or a profit carry forward resulting from the time prior to the beginning of the contract cannot be used to transfer profit or to compensate for any annual loss.[55]

The obligation to transfer profit exists for the first time upon the registration of the Contract in the commercial register of STADA and extends to the entire profit in the then current financial year of STADA.[56] The obligation becomes due in each case upon determination of the annual financial statements of STADA for the relevant financial year.[57]

The provisions on transferring profit correspond to the requirements of the law.[58] As a result of the link to the respectively applicable version of § 301 AktG, there is assurance that the provisions on transferring profit will be permissible at all times.

Assumption of losses (§ 3 of the Contract)

Nidda Healthcare has an obligation towards STADA to assume losses in accordance with the provisions in § 302 para. 1 AktG in its respectively applicable version.[59]

Under current law, Nidda Healthcare must accordingly compensate for any annual loss otherwise resulting during the term of the Contract to the extent this loss is not compensated by the fact that contributions are taken from other profit reserves which have been made during the term of the contract.[60]

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48 See, § 2 para. 1 of the Contract.
49 § 291 para. 1, 2nd alternative AktG.
50 See, § 2 para. 2 of the Contract.
51 See, § 2 para. 1 of the Contract.
52 § 301 sentence1 AktG.
53 See, § 2 para. 2 sentence 1 of the Contract.
54 See, § 2 para. 2 sentence 2 of the Contract.
55 See, § 2 para. 2 sentence 3 of the Contract.
56 See, § 2 para. 3 sentence 1 in conjunction with § 7 para. 2 of the Contract.
57 See, § 2 para. 3 sentence 2 of the Contract.
58 § 300 no. 1 in conjunction with § 150 para. 2 AktG, § 301 AktG.
59 See, § 3 para. 1 of the Contract.
60 § 302 para. 1 AktG.

The obligation to assume losses exists for the first time upon the registration of the contract in the commercial register of STADA and extends to the entire loss of the then current financial year of STADA.[61] The obligation of Nidda Healthcare to compensate for losses is due at the end of each financial year of STADA.[62] In the event of a termination of the contract during the course of a year, the compensation for the loss must be determined on the basis of a balance sheet prepared as of that date.[63]

As a result of the link to the statutory provisions and their respectively applicable version, there is assurance that the provisions on the assumption of losses are permissible at all times.

Guaranteed dividend payment (§ 4 of the Contract)

Nidda Healthcare undertakes to pay to the outside shareholders of STADA an adequate guaranteed dividend in the form of an annually recurring monetary benefit for the duration of the Contract.[64] The guaranteed dividend for each financial year of STADA for each no-par registered common share in STADA representing a mathematical portion of the share capital of € 2.60 is a gross amount of € 3.82 minus any amount for corporate income tax (KSt) and the solidarity surcharge (SolZ) in the amount of the respectively applicable tax rate for these taxes for the respective financial year. This deduction must only be made on part of the gross guaranteed dividend amount which relates to the profits which are subject to German KSt.[65]

According to the circumstances at the same of the conclusion of the Contract, the deduction for KSt is 15.0 % and 5.5 % of the KSt for the SolZ.[66] This results in a net guaranteed dividend of € 3.53 for each STADA share.[67] For the avoidance of doubt, it is agreed that any incurred taxes at the source on the net guaranteed dividend (for example, withholding tax on investment income (KESt) plus the SolZ) will be withheld in accordance with the provisions in the law.[68]

The grant of a fixed guaranteed dividend payment corresponds to the provision in the law.[69]

With regard to the determination of the amount of the guaranteed dividend payment and the audit of its adequacy, we refer to our discussion about the substantive audit of the Contract.[70]

The guaranteed dividend is due on the third banking day (Frankfurt am Main) after the general HM of STADA for the respectively previous financial year, but at the latest eight months after expiration of the respective financial year.[71] This provision is common practice and appropriate because the guaranteed dividend becomes due as a replacement for the previous claim for a dividend at, as a general rule, the same point in time when the eliminated claim for a dividend would otherwise regularly have become due.

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[61] See, § 3 para. 2 sentence 1 in conjunction with § 7 para. 2 of the Contract.
[62] See, § 3 para. 2 sentence 2 in conjunction with § 7 para. 2 of the Contract.
[63] See, § 3 para. 3 of the Contract.
[64] See, § 4 para. 1 of the Contract.
[65] See, § 4 para. 2 sentence 1 of the Contract.
[66] See, § 4 para. 2 sentence 2 of the Contract.
[67] See, § 4 para. 2 sentence 3 of the Contract.
[68] See, § 4 para. 2 sentence 4 of the Contract.
[69] § 304 para. 1 sentence 1, para. 2 sentence 1 AktG.
[70] See, section D, S. 15 et seq., especially section D.II.2, S. 21 et seq., and section D.IV.8.b), pp. 103 et seq.
[71] See, § 4 para. 3 of the Contract.

The guaranteed dividend is granted for the first time for that financial year of STADA in which the Contract is registered in the commercial register of STADA and, thus, becomes valid.[72]

The guaranteed dividend is reduced proportionately in the case of establishing a partial financial year for STADA or in the case of termination of the contract during the course of a financial year of STADA.[73]

The provisions about how to proceed in the case of capital increases using corporate funds or cash contributions or contributions in kind[74] is confirmed by the predominant view in legal writings.

If the guaranteed dividend is increased by a final decision in court appraisal proceedings (*Spruchverfahren*), the shareholders who have already received compensation can demand a corresponding supplement to the guaranteed dividend they have already received to the extent this is provided for in the law.[75] This corresponds to the statutory provision in § 13 sentence 2 German Act on Court Appraisal Proceedings (*Spruchverfahrensgesetz*). Such a supplemental claim also results in the case of a settlement to conclude court appraisal proceedings which is recorded before the court, to the extent required by law.

Compensation (§ 5 of the Contract)

Nidda Healthcare undertakes to acquire, at the request of each outside shareholder in STADA, that shareholder's STADA shares in exchange for cash compensation of € 74.40 per STADA share.[76]

Since Nidda Healthcare is not an AG or a KGaA, the compensation must be granted as a cash payment.[77]

We refer to our discussion about the substantive audit of the Contract with regard to the determination of the amount of the cash compensation and the examination of its adequacy.[78]

The obligation of Nidda Healthcare to acquire the STADA shares has a time limit.[79] A time limit is also common in practice. The corresponding provisions[80] are consistent with the provisions in the law.[81]

The provisions about how to proceed in the case of capital increases using corporate funds as a cash contribution or as a contribution in kind[82] are confirmed by the predominant view in legal writings.

The transfer of the STADA shares in exchange for compensation is free of charge for the outside shareholders of STADA.[83] There are no statutory requirements on this point.

If the compensation is increased by a final decision in court appraisal proceedings, the compensated shareholders can also demand a corresponding supplement to the compensation they have already

72 See, § 4 para. 4 in conjunction with § 7 para. 2 of the Contract.
73 See, § 4 para. 5 of the Contract.
74 See, § 4 para. 6 of the Contract.
75 See, § 4 para. 7 of the Contract.
76 See, § 5 para. 1 of the Contract.
77 § 305 para. 2 no. 3 AktG.
78 See, section D, S. 15 et seq., especially section D.II.1, S. 20, and section D.IV.8.a), S. 101 et seq.
79 See, § 5 para. 2 sentence 1 of the Contract.
80 See, § 5 para. 2 sentence 2 and 3 of the Contract.
81 § 305 para. 4 AktG.
82 See, § 5 para. 3 of the Contract.
83 See, § 5 para. 4 of the Contract.

received to the extent this is provided for in the law.[84] This corresponds to the statutory provision in § 13 sentence 2 German Act on Court Appraisal Proceedings. Such a supplemental claim also results in the case of a settlement to conclude court appraisal proceedings which is recorded before the court, to the extent required by law.

A right to sell limited by time in the case of a termination of notice of the Contract[85] assures that the outside shareholders which have not accepted the offer for cash compensation and remain in the Company do not incur any harm as a result of the notice of termination. In this event, the offer for cash compensation of € 74.40[86] per share is resurrected. The shareholders are accordingly granted in this respect additional protection that goes beyond the level required by law.

The Contract does not provide for any interest, but this is also not necessary. The statutory provision in § 305 para. 3 sentence 3 AktG applies, according to which the compensation must bear interest after the expiration of the date on which the Contract has taken effect at an annual rate of 5 percentage points above the respective base interest rate under § 247 BGB and that the assertion of any further harm is not excluded.[87]

Right to information (§ 6 of the Contract)

Rights of information are granted to Nidda Healthcare, and duties to provide information are imposed on STADA.[88]

According to the general view, the right of the controlling company to information is part of the power to manage the corporate group resulting under § 308 para. 1 AktG. The clarifying provisions do not give any reason for objection.

Coming into effect and term (§ 7 of the Contract)

In accordance with the provisions in the law,[89] the Contract requires the approval of the GM of STADA as well as the approval of the shareholders' meeting of Nidda Healthcare in order to become valid.[90]

The Contract has been drafted in written form in accordance with the statutory requirements.[91]

The Contract first becomes valid in accordance with the statutory provision[92] when its existence has been registered in the commercial register for STADA.[93]

The Contract is concluded for an indefinite period of time and can be regularly terminated exclusively by Nidda Healthcare by giving three months' written[94] notice effective at the end of a financial year.[95] Due

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84 See, § 5 para. 5 of the Contract.
85 See, § 5 para. 6 of the Contract.
86 In the case of an increase in the court appraisal proceedings or by settlement to avoid or end court appraisal proceedings, the increased amount applies if the put?? is exercised (see § 5 para. 6 of the Contract).
87 § 305 para. 3 sentence 3 AktG.
88 See, § 6 of the Contract.
89 § 293 para. 1 sentence 1 AktG in direct application with regard to the approval of the GM of STADA and § 293 para. 2 sentence 2 AktG applied accordingly with regard to the approval of the shareholders meeting of Nidda Healthcare.
90 See, § 7 para. 1 of the Contract.
91 § 293 para. 3 AktG.
92 § 294 para. 2 AktG.
93 See, § 7 para. 2 of the Contract.
94 See, § 7 para. 8 of the Contract.
95 See, § 7 para. 3 sentence1 and 3 of the Contract.

to tax reasons, a minimum term of five years of time (60 months) is agreed.[96] The contract can be terminated by either party for just cause [*wichtiger Grund*] without compliance with any notice period.

The legal requirements with regard to notice of termination for just cause (*wichtiger Grund*)[97] have been complied with.[98]

In the case of a termination of the Contract, security must be provided to the creditors of STADA in accordance with § 303 AktG.[99]

Final provisions (§ 8 of the Contract)

The final provisions correspond to standard contracting technique and raise no grounds for objection.

Result of the audit

The DPLTA contains completely and correctly the elements required in §§ 291 et seq. AktG and, thus, corresponds to the provisions in the law.

[96] See, § 7 para. 3 sentence2 of the Contract.
[97] § 297 para. 1 AktG.
[98] See, § 7 para. 4 to 6 of the Contract.
[99] See, § 7 para. 7 of the Contract.

D. Substantive audit of the Domination and Profit and Loss Transfer Agreement

I. Valuation principles and methods

1. Basis for the valuation

There is no legally required method for the valuation of businesses. The value of a business results from the benefits which the business can generate in the future, especially on the basis of the material substance, innovative power, the businesses' products and position in the market, its internal organization as well as its management existing at the point in time of the valuation while maintaining the substance of the business.

Generally recognized valuation principles applied to the valuation of enterprises have been developed in business management theory, the case law and valuation practice. These principles have been set forth especially in IDW S 1.

In accordance with many years of valuation practice and the German case law, the business value and the amounts of the cash compensation and the payment of a guaranteed dividend derived from the business value result, under IDW S 1 in the case of reasons for a valuation under corporate law such as the conclusion of a DPLTA, from an objectified business value which directly takes into account the taxation on the shareholders. This objectified business value represents a typified and intersubjective, verifiable value for future success from the point of view of a German, fully taxable shareholder on a going concern basis with an unchanged concept.[100]

2. Value of future success

The value of a business is determined - assuming exclusively financial goals - as the value of future success using the present value of the net income for the owners of the business resulting from the ownership of the business.[101] The value of future success can be determined using the discounted dividends method or the discounted cash flow method.[102]

Both valuation methods are generally equivalent and lead to identical results in the case of the same assumptions and simplifications made for the purpose of the valuation, especially with regard to the financing, because these two methods have the same basis[103] in investment theory.[104]

The discounted dividend value is determined using the financial surpluses flowing in the future to the owners of the business, which cash flows are discounted to present value using the capitalization

[100] According to "Best Practice Recommendations Business Valuation" of the DVFA working group "Corporate Transactions and Valuation" published in December 2012 by the German Association for Financial Analysis and Asset Management e.V., Frankfurt am Main (the "DVFA-Recommendations"), the focus of the IDW on the objectified business value does not correspond to "real life from the point of view of all players in the capital market". Therefore, the working group recommends to determine ranges of values on the basis of different valuation methods (there, p. 6). Representatives from valuation practice and also the academic world have expressed concerns against the DVFA-Recommendations. The IDW, in its response to the draft of the DVFA-Recommendations dated 6 February 2012, especially addressed the aspects of "manifold methods and reducing the ranges of value to a single result", "suitability of stock prices and multiples for purposes of compensation" as well as "consideration of personal income taxes" and recommended that the DVFA-Recommendations be fundamentally reconsidered due to the concerns set forth in that letter (there, p. 5). Since we share these concerns, we do not discuss below the valuation principles and methods recommended by the DVFA

[101] See, IDW S 1, no. 4.

[102] See, IDW S 1, no. 7.

[103] See, IDW S 1, no. 101.

[104] Calculation of value of capital.

interest rate. These surpluses are derived from the future surplus earnings from the assets required for operations as well as the financial results from selling assets which are not required for the business and other separately valued assets.[105]

a) <u>Forecast of the future financial surpluses</u>

The forecast of the future financial surpluses represents the core problem in any business valuation.[106] The earnings power demonstrated in the past serves generally as a starting point for evaluating reasonableness.[107] In the context of an objectified valuation, only those surpluses are to be taken into account which result from measures which have already been initiated or from a sufficiently documented and specified business concept.[108] If the prospects for earnings become different in the future due to business related reasons and/or changes in the conditions in the market and competition, the recognizable differences must be taken into account.

Synergy effects are understood to be the changes in the financial surpluses resulting from the economic combination of two or more businesses which deviate in total from the isolated surpluses that arise. The principles in IDW S 1 differentiate between genuine and non-genuine synergies. The genuine synergies are exclusively able to be realized by cooperation between specific businesses due to specific features or by taking into account the effects from the surpluses that can be generated from the matter that constitutes the basis of the valuation, while the non-synergies can be implemented with a virtually arbitrary large number of partners or can be realized without taking into account the reason for the valuation.

Only non-genuine synergies are to be taken into account in an objectified valuation if the measures resulting in the synergy have already been initiated or documented in the business concept and only to the extent that they are attributable to the valuation subject.[109]

When determining the value of corporate groups, the financial surpluses can be determined using various methods.[110] The appropriate method in the respective specific case results from the planning and taxation approach of the corporate group and takes into account the question whether a description also of the values of individual corporate group companies makes sense, is desired or necessary.

[105] See, IDW S 1, section 7.2.
[106] See, IDW S 1, no. 68.
[107] See, IDW S 1, no. 72.
[108] See, IDW S 1, no. 32.
[109] See, IDW S 1, no. 33 et seq.
[110] In steps by collecting the results in the results of participations of the respectively participating company or simultaneously by addition and consolidation. In addition, the valuation of corporate groups can also be carried out by adding the value of each company in the group while taking into account the participations ("sum-of-the-parts").

b) Distribution policy

When determining the objectified business value, the assumption is that those financial surpluses will be distributed which are actually available for distribution after taking into account the business concept documented as of the valuation date[111] and the legal restrictions, e.g. regulatory requirements.[112]

To the extent the planning differentiates between two phases, the first phase[113] involves an allocation of the surpluses in distributions and retained funds, including their use based on the planned accounts. To the extent there are no plans for the use of retained amounts and the investment planning also does not provide for any specific use, appropriate assumptions must be made about the use of the funds. If the growth in value resulting from retained earnings is subject to effective taxation on profits realized upon a sale, this must be taken into account in the valuation.[114]

With regard to the second phase,[115] generally an assumption must be made for purposes of typification that the distribution policy of the business being valued is equivalent to the distribution policy in the alternative investment. A general, also typifying assumption is made for reinvestment of retained funds in the second phase that these funds can either be reflected by an investment at the capitalization interest rate before income taxes of the Company which is neutral for the value of capital or they can be reflected with the same value by a deemed, direct attribution of the retained earnings to the shareholders.[116]

c) Influences of income tax

The value of a business is determined by the amount of the freely available net cash flows to the investor. These net cash flows, according to the recommendations of the IDW, must be determined by taking into account the income taxes on the business and generally the income taxes on the corporate shareholders that arise as a result of ownership of the business.[117]

With regard to the relevance of the personal income taxes for value, it is necessary to typify the tax circumstances of the shareholders in order to determine objectified business values resulting from the reason for the valuation.[118]

In the case of reasons for the valuation resulting under corporate law and contractual reasons, such as conclusion of a corporate group agreement, the typification -°in accordance with many years of valuation practice in German case law°- is based on a natural person located in Germany who is subject to full taxation. Appropriate assumptions about the personal taxation of the net cash flows from the valuation subject and from the alternative investment must be made.

The corporate tax reform 2008 had direct effects both on the business taxes as well as the personal income taxes which must be typified. The half-income process for dividends and the general tax

[111] Including the planning for distributions.
[112] See, IDW S 1, no. 35.
[113] The so-called detail planning period.
[114] See, IDW S 1, no. 36.
[115] The so-called terminal value phase.
[116] See, IDW S 1, no. 37.
[117] See, IDW S 1, no. 28 et seq.
[118] See, IDW S 1, no. 43 et seq.

exemption of capital gains resulting from increases in value (profits on the price of shares) used when taxing owners of shares in corporations was replaced by the system of the final tax on investment income (*Abgeltungssteuer*) according to which also capital gains are subject to final tax on investment income.

The final tax on investment income, including the solidarity surcharge and while ignoring church tax, is 26.375 % and applies in the full amount for distributed profits. The effective tax on capital gains resulting from retained earnings depends on the personal length of holding the shares by the owner due to the interest effect.

When estimating the effective tax rate from final tax on investment income for capital gains, in the view of the Technical Committee for Business Valuation and Economics (*FAUB*) at the IDW,[119] it is appropriate to generally assume a longer holding period for typified shareholders and assume accordingly a low effective burden with taxes on retained profits.

The FAUB recommends for valuation dates after 1 January 2009 to apply a typified effective capital gains tax rate of 12.5 %[120]. This corresponds in the case of a return on the stock price after taxes of 5.0 % for a holding period of approximately 40 years.

Effects of the corporate tax reform 2008 must be indirectly taken into account when determining the capitalization interest rate by changes in the requirements for a return on investment before and after persona income taxes and the market risk premiums derived from this.

d) <u>Capitalization of the future financial surpluses</u>

The business value is determined, assuming exclusive financial goals, by the present value of the net income for the shareholders resulting from ownership of the business. In order to derive the present value of the surpluses, a capitalization interest rate is used which represents the return on an equivalent alternative investment compared to investing in the business which is the subject of the valuation.

This return on investment can generally be broken down into a base interest rate and a risk premium demanded by shareholders because they assume the entrepreneurial risk. When determining the base interest rate and risk premium, the influence of taxes must be taken into account. In order to reflect effects from growth in the form of continuously growing financial surpluses after the end of the detailed planning phase, the capitalization interest rate is reduced by a growth rate.

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119 "FAUB".
120 This corresponds to one half the nominal tax rate; plus SolZ.

e) Addition with assets not required for the business and other special values

Any possibly existing assets which are not required for the business must generally be separately taken into account in a business valuation, and this includes those assets which could be freely sold without affecting the actual purpose of the business. Taking this into account as a special value also is conceivable for other sets of facts which normally cannot be reflected or can only be incompletely reflected when determining the discounted dividends value.

3. Liquidation value and substance value

Pursuant to IDW S 1, the liquidation value is a potential lowest limit on the business value if the present value of the financial surpluses which would result from the liquidation of the entire business is higher than the discounted dividends value on a going concerned basis.

The substance value results from the reconstruction or new procurement value for all assets and debt existing in the business. Since the substance value generally has no direct relationship to the future financial surpluses, the substance value has no independent importance when determining the business value.

4. Simplified determination of price

In order to check the reasonableness of the business valuation based on internal business data, comparative analyses can be made on the basis of public capital markets data and transactions. Such simplified pricing cannot take the place of a "fundamental, analytic" business valuation under IDW°S 1.[121]

The business value in valuation practice is often estimated by means of a multiple of certain variables for success and existing variables and an industry-specific key number of the valuation subject. Appropriate multiples are either derived from capital markets data of listed comparable companies or from comparable transactions.

The values determined on the basis of multiples, however, can only provide initial rough indications. In the first place, some multiples do not sufficiently take into account earnings and cost structures that are specific to the business. Secondly, specifically expected further changes in the cash flows from the valuation subject cannot be taken into account due to lack of a sufficiently long forecast period for the estimates by analysts. Furthermore, special aspects, such as e.g. loss carry forwards and assets which are not required for the business, often cannot be reasonably taken into account in a multiple valuation.

In the case of multiples derived from transaction prices, it is also necessary to consider that actually paid purchase prices are determined to a high degree by the subjective interests of the transaction partners. The prices especially take into account, for example, synergy effects and subjective expectations. Thus, the informative power of this approach compared to multiples derived from stock exchange prices is normally lower when checking the reasonableness of an objectified business value.

[121] See, IDW S 1, no. 143 et seq.

The applicability of the relative numbers obtained by comparable analysis to the valuation subject under a multiple valuation is, thus, only possible to a limited degree. A multiple valuation, however, usually makes it possible to at least place the result of the valuation in unavoidable ranges and to subject the result of the valuation to a final overall assessment.

5. Paid purchase prices and stock exchange prices

The extent to which prices paid by the majority shareholder for shares in the enterprise being valued ("prior purchases") directly can be referred to when determining the business value and deriving cash compensation or a guaranteed dividend payment is a subject of dispute in the case law and legal writings. Actually paid prices for businesses and parts of businesses, according to IDW S 1, can be referred to as an indication for the economic reasonableness of business values and values of shares, but this does not replace a valuation of a business.[122]

If there are stock exchange prices for shares in the business, they must be used as a reference to evaluate reasonableness of a business value or value of a share determined with fundamental analysis. Special influences which possibly affect the price on the stock exchange must be carefully analyzed and described (e.g. low portion of shares traded on the stock exchange, special situations in the market).[123]

According to the highest case law of the German Constitutional Court[124] and the BGH[125] on listed stock corporations, the determination of the cash compensation cannot be made without taking into account the stock exchange price as the lowest limit for the cash compensation if the stock exchange price represents the fair market value of the shares. If there is no liquidity in the market or if the stock exchange price has been manipulated, this is not the case. An appropriate average price must always be used when referring to the volume weighted stock exchange price.

[122] See, IDW S 1, no. 13.
[123] See, IDW S 1, no. 15.
[124] "BVerfG"; see, order dated 27. April 1999 – 1 BvR 1613/94, BVerfGE 100, pp. 289 et seq.
[125] See, BGH, order dated 12 March 2001, II ZB 15/00, BGHZ 147, 108 et seq.

II. Determination of an adequate compensation and adequate guaranteed dividend

1. Reasonable compensation pursuant to § 305 AktG

A DPLTA must, among other aspects, contain the obligation of the other contracting party, i.e. the controlling company, to acquire shares of an outside shareholder upon that shareholder's request in exchange for adequate compensation determined in the contract (§ 305 para. 1 AktG).

According to the knowledge gained in business management theory, the case law[126] and valuation practice, the value of the business is the correct basis for determining the cash compensation under § 305 AktG. The determinative aspect is accordingly the value of the business as a whole. This complies with the doctrine developed in the case law of compensation at the full value of the participation.

When converting the business value to one share, any special aspects of the respective valuation subject[127] must be taken into account with an allocation of the business value which is different from the allocation according to quotas.

When determining the compensation for shares in a listed company, the stock exchange price, as the fair market value of the stock, cannot be ignored. [128] Whether the stock exchange price actually reflects the fair market value must be examined in the specific case. The result of individual sales does not permit a conclusion about a generally applicable fair market value if only a few shares are held in free float and if there are only small sales of shares or if the stock exchange price is influenced by events which do not relate to the value.

2. Reasonable guaranteed dividend under § 304 AktG

Pursuant to § 304 para. 1 sentence 1 AktG, a DPLTA must guarantee an adequate dividend for the outside shareholders in the form of a recurring monetary benefit (guaranteed dividend payment) related to the shares in the capital. At lease the annual payment of that amount must be promised as the guaranteed dividend payment which could likely be distributed as the average share in the profit for the individual share based on the existing earning situation of the company and its future prospects for earnings and taken into account reasonable depreciation and value adjustments, but without establishing any other profit reserves.[129]

The forecast-oriented discounted dividends value reflects the payments between the business and the owners of the business and takes into account the interest effects. In the case of businesses with positive annual results, these are the expected dividend payments to the shareholders. In the interest of evening out the annual guaranteed dividend payment, the legislature does not relate the duty to pay to the expected profit accruing annually in different amounts and instead requires that amount which could likely be distributed as an average share in the profit for the individual share. The average amount

[126] See, BGH, order dated 12 March 2001, II ZB 15/00, ibid.
[127] E.g. in the case of different classes of stock.
[128] See, section D.I.5, p. 20.
[129] § 304 para. 2 sentence1 AktG.

accordingly takes into account fluctuations in success in the calculations, but these fluctuations are smoothed out using a singular average amount.

In accordance with the case law of the BGH,[130] the guaranteed dividend is accordingly derived as an annuitization of the objectified business value.

When determining an objectified business value, regular retentions of earnings in the detailed phase as well as deemed additions of retained earnings in the terminal value phase are applied. This approach chosen for systematic reasons of the valuation does not necessarily include showing other profit reserves. It especially does not prevent deriving the guaranteed dividend from the business value, because the increases in equity strengthen the basis for earnings in future years, and retention of profits, therefore, does not represent a reduction of the average share in the profit that can be distributed.

The BGH decided in an order dated 21 July 2003 that an outside shareholder – contrary to the common practice up to that time – must be promised a (fixed) guaranteed dividend, the likely gross portion of the profit per share eligible for distribution on average, minus the KSt (on dividends) to be paid by the company at the respectively applicable tax rate.[131]

The "generated profit" is accordingly the profit before corporate income tax (KSt). Adjustments of the KSt accordingly lead to adjustments in the guaranteed dividend payment, because in the view of the BGH, the KSt cannot itself be influenced by the company. This case law has been criticized in legal writings to the effect that the decision breaks through the principal of having a calculation date for business valuation only with regard to the corporate income tax rate and that there is no systematic reason to take into account the German KSt methodologically in any manner that is different from foreign income taxes or (German) Trade Tax (GewSt).

According to the view of the BGH, the described approach does not violate the principal of having a calculation date because when determining the guaranteed dividend, the gross profit that can be distributed on average must be derived from the objectified value of the business for which only the organizational circumstances as well as the economic and legal structures of the business existing on the valuation date are determinative.

The BGH also held in this order that the annuitization of the business value must be made with the full, risk-adjusted capitalization interest rate. The separately valued assets[132] also cannot be taken into account when determining the guaranteed dividend.

Parts of this order are not applicable beyond the individual case that was decided for which the crediting process applicable until 31 December 2000 was determinative. The (usually fluctuating) future earnings of a business are represented in a focused manner in the business value which represents the payments between the business and the shareholders, taking into account the time over which they accrue as well as assets which are not required for the business and the other special values. It

[130] See, Az. II ZB 17/01, ZIP 2003, pp. 1745 et seq., "Ytong Order".
[131] Ibid.
[132] Especially the assets not required for the business.

especially does not appear reasonable that the shareholder should be permanently deprived of those elements of the assets which are not required for the business as a result not including them in the calculation. Therefore, the entire business value is transitioned in valuation practice by annuitizing a fixed guaranteed dividend payment.

The above-mentioned order of the BGH also does not take into account that the fixed guaranteed dividend payments are subject to a lower risk during the term of the contract than regular dividend payments. The risk position of the outside shareholder is determined, in the first place, by the credit standing of the contract partner which has the obligation to pay the guaranteed dividend. Secondly, there is normally the risk that the contract will be terminated. In this event, the shareholder must again bear the full risk of uncertain dividend payments after the end of the contract, particularly since the earning power of the business might have decreased during the term of the contract.

Therefore, the annuitization interest rate is regularly calculated as the average value from the present value equivalent, risk-adjusted capitalization interest rate forming the basis of the business valuation and the virtually certain base interest rate. In situations in which the risk of an end of the contract is eliminated by a right to sell, however, it is appropriate when determining the annuitization interest rate to exclusively refer to the credit standing of the contract partner required to pay the guaranteed dividend or a third party that guarantees this.

III. Approach for the substantive audit

The executive board and employees of STADA and the Valuation Expert have described to use orally in detail as well as in writing the following subject areas:

§ Business activity of the Stada Group, including the market and competitive environment

§ Results of operations generated in the past and planned for the future[133]

§ Determination of the financial results and business taxes

§ Determination of the sustained results

§ Planning of the balance sheet and the cash flows

§ Valuation approach and status of the ongoing valuation work

Using the provided documents and the supplemental information provided orally, we have examined the approaches for the planning with regard to plausibility, consistency and mathematical accuracy and verified the methodology and the substance of the valuation.

We also additionally conducted our own examinations and calculations, especially with regard to the components of the capitalization interest rate.

The emphasis of our audit was placed on the following aspects:

§ Reasonableness of showing the expected development of the business of the Stada Group with the planned accounts that form the basis of the business valuation

§ Appropriately incorporating the planned accounts in the valuation model

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[133] "EBIT" (Earnings Before Interest and Taxes).

- Appropriate determination of the net income from the submitted planned accounts
- Sampling the reasoning for determining the sustained results of operations and the sustained net income
- Appropriate determination of the capitalization interest rate
- Reasonable and overall appropriate application of the valuation methodology
- Identification and any appropriate inclusion of sets of facts that must be separately valued, such as e.g. assets not required for the business
- Evaluation of valuation methods and standards for comparison other than the discounted dividends value in the form of the objectified business value under IDW S 1

In addition to setting these main points with regard to substance, we emphasized in our examination individual elements of the results and the net income in accordance with their importance for the value.

The analysis of the data from the past is a basis for checking the reasonableness for the planned accounts. We have convinced ourselves that significant influences in the past that will most likely not recur were not carried forward as such when determining the planned results and also were correctly described in the Valuation Report. For this purpose, we analyzed the financial statements and other reports for the analyzed comparative period of time in the past[134] and obtained further break-downs and explanations about the results in the past.

In order to be able to assess the quality of the planning process at STADA, we initially obtained an explanation about the planning process and verified whether this corresponds to the principles of proper planning. In this regard and in light of the circumstance that the planning for the financial years 2018 to 2020 in the course of the normal preparation process was first able to be completed in November 2017, we first analyzed the documentation of the planned accounts for the financial years 2017 to 2019 adopted in December 2016 by the former executive board.

The quality of the planning process can especially be assessed on the basis of a retrospective analysis of the planned accounts in the past. Usually only the budgets of the respective next year are used as a reference in the valuation practice because the exactness of planning normally decreases as the distance in time increases. The Valuation Expert checked the planning accuracy accordingly on the basis of a comparison of the adjusted values[135] for the central management variables in the Stada Group[136] against the budgeted values from December of the respective previous year[137]. We verified these analyses.

The prospective assessment in specific planned accounts refers to the actual numbers in the past and, thus, to trends in the development of the business (comparison over time) as well as the actual and forecast values for the relevant markets and competitors (comparison of operations). By making corresponding comparisons using key numbers and ratios, we analyzed whether the planned numbers

134 Financial years 2014 to 2017; whereby the financial year 2017 is estimated based on the level of knowledge in October 2017.
135 Group management reports for the financial years 2014 to 2016 and the best estimate for the financial year 2017.
136 "Financial performance indicators": consolidated sales adjusted for currency and portfolio effects, adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization of Goodwill), adjusted consolidated profit as well as net debt/adjusted EBITDA.
137 These are the planned accounts at the end of 2013, 2014, 2015 and 2016.

for the financial years 2018 to 2020 (detailed planning phase) reasonably reflect the further development of the Stada Group based on today's knowledge.

The planned accounts submitted by STADA is the basis for determining the discounted dividends value by the Valuation Expert. We accordingly checked that the planned accounts were incorporated into the valuation model. We also examined whether the valuation model overall is methodologically consistent.

Compared to the Company's own planned accounts, modifications were incorporated into the valuation model for the systematic valuation. We verified the original variables, the underlying assumptions as well as the methodological consistency of the corresponding calculations in general.

Since the planned result, in the view of the Valuation Expert, does not correspond to the average expected sustained results also in the last year of the detailed planning phase (2020), the Valuation Expert supplemented the planning of the Company with an extrapolation up to the year 2023[138]. When using a growth rate for future specific expectations for inflation and efficiency for the company and the segments, the Valuation Expert transitioned the accordingly normalized values to the terminal value phase (2024 et seq.)[139]. We checked the assumptions that were made in the corresponding calculations with a separate analysis.

The Valuation Expert incorporated in general the planned distributions of the Company.[140] Since the check of reasonableness of the calculated distribution quota showed that this can also be applied in a sustained manner, the Valuation Expert retained this without any change also in the convergence phase and the continuation phase. We checked the underlying considerations and verified the calculations of the personal income taxes resulting on this basis and the resulting net income for the shareholders.

When determining the capitalization interest rate, the Valuation Expert took into account the fact that the results for the determination of a business value can only be an estimate. The Valuation Expert accordingly considered in appropriate[141] not to determine a single value and instead ranges. Since especially some components in the capitalization interest rate are discussed in a controversial manner and are accordingly appropriately subject to developing ranges, the Valuation Expert modelled the upper and lower value of the range in which the market risk premium and the growth at the end of the detailed planning phase and the corresponding growth rate are different.[142] We methodologically as well as in terms of content verified the determination of the individual components in the capitalization interest rate and reconciled this with the corresponding measurements of capital markets data.

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[138] "Convergence phase"; financial years 2021 to 2023, whereby the financial year 2023 is a technical transition year to establish sustained comparable values for the key numbers for returns related to the balance sheet.
[139] Also the "continuation phase".
[140] Deviations result from the assumed cash flow to the shareholders in the same phase.
[141] In accordance with the DVFA-Recommendations and the Valuation Expert's mandate.
[142] Low value of the range: market risk premium after personal taxes 6.0 %, growth rate 1.25 %; upper value of the range: market risk premium after personal taxes 5.5 %, growth rate 1.0 %. The Valuation Expert bases the detailed discussion on the bottom value of the range because the Valuation Expert is of the opinion that a market risk premium after personal taxes of 6.0 % and a growth rate of 1.25 % lead to a correct valuation. The Valuation Expert supplements the discussion with a calculation of the upper value referred to by the Valuation Expert as "sensitivity calculation". We have followed this discussion to the extent that we consider the low value as "Variation 1" and the upper value as "Variation 2".

The Valuation Expert increased the discounted dividends value resulting on this basis in the two variations as of the technical valuation date (31 December 2017) to the legal valuation date (2 February 2018) by applying interest. We verified this calculation.

Sets of facts which cannot be reflected or can only be incompletely reflected in the determination of the discounted dividends value were separately valued by the Valuation Expert, and the positive balance was added to the discounted dividends value. We checked whether the application of special values is completely and correctly quantified.

In addition to the determined range for the objectified business value under IDW S 1, the Valuation Expert – in accordance with the DVFA-Recommendations – also determined a range for the business value before personal taxes as well as further ranges on the basis of multiples. We checked these alternative valuation approaches in the course of our analysis of the reasonableness of the determined ranges for the objectified business value under IDW S 1. In addition, we checked the result of the valuation for reasonableness also by considering further standards for comparison.

The Valuation Expert did not determine the liquidation value of STADA. We verified the considerations described in the Valuation Report and the resulting conclusion that a going concern value is higher than the liquidation value in the case of an assumed liquidation.

The Valuation Expert converted the determined ranges for the business value in each case to one share. We verified the substance of this conversion and checked the calculations.

The STADA shares are admitted to trading on stock exchanges. The Valuation Expert accordingly also addressed the question whether the stock exchange price for the STADA shares potentially represents a lowest limit for the cash compensation. We also verified the corresponding considerations.

The Valuation Expert determined the adequate guaranteed dividend under § 304 AktG by annuitizing the business value. We checked the necessary starting variables and verified the mathematical determination of the range for the guaranteed dividend.

IV. Findings of the substance audit

1. Valuation subject

a) Legal and tax situation

STADA, as the valuation subject, has its registered office in Bad Vilbel and is registered in the commercial register at the Local Court [*Amtsgericht*] Frankfurt am Main under HRB 71290. The Company's German business address is: Stadastraße 2-18, 61118 Bad Vilbel.

The articles of association of STADA were most recently amended by a resolution of the GM dated 26 August 2016. This amendment to the articles of association took effect when it was registered in the commercial register on 9 December 2016.

The subject of the Company relates to directly or indirectly through participations providing deliveries and services for the worldwide healthcare market.

The financial year of STADA corresponds to the calendar year.

The fully paid in share capital of the Company is € 162,090,344.00 and is divided into 62,342,440 no-par registered shares representing a mathematical portion in the share capital of € 2.60 per share. STADA holds 84,311 treasury shares. Thus, there are 62,258,129 outstanding shares.[143]

The STADA shares are admitted to trading on the Frankfurt securities exchange in the segment of the regulated market with additional follow-up duties for the admission (Prime Standard) as well as on the Düsseldorf stock exchange in the regulated market. Furthermore, the STADA shares are traded though the electronic trading system XETRA as well as in over-the-counter trading on the regional stock exchanges in Berlin, Hamburg, Hannover, Munich, Stuttgart as well as through the Tradegate Exchange. The STADA shares are presently included in the indices MDAX, EuroSTOXX 600 and MSCI Small Cap Europe.

According to the information in the Contract Report, Nidda Healthcare directly holds 40,695,213 STADA shares. This corresponds to a participation in the share capital of the Company of 65.28 %. The other 34.58 % of the STADA shares are held in free float, whereby the greatest portion of the free float is held by institutional investors.

Nidda Healthcare is finally jointly controlled by funds through its direct parent company Nidda Holding and a chain of participations, which are advised by Bain Capital Private Equity (Europe) LLP and Cinven Partners LLP, both in London/Great Britain.

The majority participation of Nidda Healthcare resulted as a consequence of a voluntary public takeover offer. After the original takeover offer of Nidda Holding had failed, despite lowering the minimum acceptance threshold, in the meantime, Nidda Holding was able, in a new voluntary takeover offer, to achieve the conditions required for the closing of the takeover offer as a consequence of a further reduction of minimum acceptance threshold and an increase of the financial consideration to a total of

[143] ValueTrust refers to the difference between the issued shares and the treasury stock as outstanding shares.

€ 66.25 per STADA share. On 24 August 2017, Nidda Holding announced that it intended to conclude a DPLTA between itself or one of its affiliated companies as the controlling company and STADA as the controlled company. Nidda Holding subsequently contributed its STADA shares acquired as a result of the closing of the takeover offer and in purchases on the stock exchange to Nidda Healthcare.

STADA the top company in the Stada Group. It performs all typical administrative and holding functions within the Stada Group and is especially responsible for the strategic development of the Group. The STADA Group includes 81 fully consolidated subsidiaries, in five companies of which other shareholders have participations, and there are four associated companies and 27 non-consolidated participations in Germany and foreign countries.[144]

STADA is the parent company for purposes of consolidation for trade tax, corporate income tax and value added tax the material (domestic) companies in the tax consolidation group. The external tax audits in the consolidated group for the assessment periods starting with 2010 have currently not yet been completed.

b) <u>Economic Basis</u>

ba) <u>Business Model and Business Strategy</u>

The business model of the STADA Group is directed towards the development, marketing, production and distribution of products with patent-free pharmaceutical active substances in the healthcare market with a focus on the pharmaceuticals sector. Due to aspects related to costs and risk, STADA intentionally forgoes research for and marketing new pharmaceutical active substances and instead concentrates on the development and marketing of products with active substances which are no longer subject to intellectual property rights, especially patents.

Upon implementing a business strategy that was further developed in 2016, a number of corporate functions were centralized, and the management and reporting structures were more strongly directed towards the segments of generics and brand products.

STADA distributes mostly non-prescription pharmaceuticals in the generics segment which contain the same active substance as the corresponding pharmaceuticals from the original suppliers and have the same therapeutic effectiveness and safety, but can be offered at much cheaper prices after expiration of the patent or other intellectual property rights. The segment currently constitutes around 60 % of the Group's sales.

STADA offers an extensive portfolio of generics, including select biosimilars. Generics are considered to have further chances for growth within pharmaceuticals market because they represent a cheap alternative to original products which are often expensive. Since biosimilars particularly have potential for growth, STADA is increasingly expanding its portfolio of biosimilars. In light of the related higher potential for earnings, STADA intends to increasingly also develop biosimilars in cooperation with partner companies.

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[144] Information as of 30 September 2017; details are shown in the organigram on the structure of the STADA Group attached as Appendix 4.

The market for generics requiring prescriptions is characterized by regulated customer prices, intense competition, high pressure on costs and margins and high requirements for safety and production and product quality. The regulatory parameters also are continuously changing. The sales focus in the generics segment lies on structuring cheap prices, especially with the agreed discount agreements and/or marketing for multiple products and indications by providing as many medications as possible for normal therapy ("full assortment approach").

The top 5 generics active substances in the financial year 2016 were Tilidin Naloxon (pain), Atorvastatin (increased cholesterol level), Pantoprazol (stomach ulcer/reflux), Epoetin zeta (anemia) and Diclofenac (pain/inflammation). The top 5 markets in the segment in the financial year 2016 were Germany, Italy, Spain, Russia and Belgium.

Primarily non-prescription products are distributed in the brand products segment.[145] The brand product segment currently contributes around 40% to the corporate group sales.

The market for brand products is characterized by lower regulatory requirements with regard to the structuring of prices and the product design. Therefore, the focus in distribution lies on increasing and maintaining the degree of brand awareness with a centrally coordinated product policy, communications strategy and targeted distribution measures. STADA believes that there is potential for growth especially in the internationalization of brands that have been successfully introduced. The top 5 products in the brand product segment in the financial year 2016 were APO-Go (Parkinson's disease), Grippostad (colds), Snup (stuffy nose), Fultium (vitamin D deficiency) and Vitaprost (prostate illness). The top 5 markets in the segments in the financial year 2016 were Germany, Great Britain, Russia, Italy and Vietnam.

The continuous expansion of the product portfolio – in light of the continuous erosion in prices – is prerequisite for organic growth. The Company accordingly uses its efforts to have a continuously sufficiently filled product pipeline. The development and licensing process for products that follows the central decisions made with regard to the portfolio requires a substantial lead time, so that often up to ten years are needed, including patent research, in order to be able to newly introduce a generic product.

Overall, STADA currently has a broadly diversified product portfolio of more than 800 pharmaceutical active substances with around 17,000 different forms of administering the medication and dosages.[146] The maintenance of the pharmaceutical licenses in the STADA Group is assured by the departments Pharmaceuticals Covigilance and Quality Assurance/Quality Control.

STADA in general has a high degree of flexibility in the supply chain and pharmaceutical production as a result of an international network of internal and external resources. STADA itself does not normally produce the active substances and ancillary substances required for production and instead procures them primarily from cheap suppliers in low cost countries, especially in the Asian region. STADA protects itself against the risk of losses in the margins resulting from decreasing selling prices as much

[145] "Over The Counter" or "OTC".
[146] "Stock Keeping Units" or "SKU".

as possible by dynamic pricing clauses under which the procurement prices are coupled to the sales prices. The production of the pharmaceuticals takes places in 19 sites belonging to the Group. Based on the successive transition of production volumes within the own production sites, in the meantime, a large part of the Group-wide production volume is produced in low cost countries, above all in Eastern Europe.

The distribution strategy of STADA is based on the individual market situation in the individual countries. The distribution strategy is accordingly directed to whether the relevant market is regulated with pricing requirements or is structured as a so-called self-payer market. This direction influences also the weight of the segments in the individual countries.

STADA distributes generics and brand products in approximately 125 countries and, thus, covers all European markets as well as the main growth markets in the MENA region,[147] Asia, South America and Australia. The European market, which is of particular importance for STADA, is greatly fragmented and marked by different regulations and distribution approaches.

The main customer groups of the Group include above all patients and consumers, doctors, pharmacies and pharmacy chains, clinics, mail order dealers, purchasing groups, the wholesale trade and other service providers in the healthcare market as well as the organizations which bear the cost in statutory and private health insurance systems. Distribution is through a broad network of distribution companies, wholesalers and pharmacies.

The STADA Group had on average 10,839 employees in the financial year 2016, mostly in foreign countries. As of 30 September 2017, the number of employees increased to 11,1117.

Beginning in the year 2016, STADA initiated numerous initiatives to improve the performance and, thus, in the final analysis, profitability.

The profile of STADA is supposed to be strengthened on the sales side as follows:

- expansion of the biosimilars portfolio with a focus on four fields of therapy that have strong growth and a partial assumption of development risks which requires higher investments and, thus, acceptance of additional risks, but also opens up the possibility for larger profits
- generation of relatively constant cash flows from the core segment generics by expansion into markets that have so far not had so much penetration
- continuation of the internalization of brand products successfully introduced in other countries
- improving the allocation of resources by focusing the marketing activities on products that are strong in terms of growth and margins.
- lean and harmonized product portfolio in the generics segment with elimination of products which are weak in sales and margins, which is supposed to be overcompensated by the long-term planned expansion of the product portfolio in the existing pipeline

The executive board of STADA also promises itself potential costs savings with the following measures:

[147] Middle East & North Africa.

- reduction of the production costs with a further standardization of the production and packaging processes, the tightening of production processes and the continued optimization of supply channels
- reallocation of outsourcing and insourcing together with a tightening of the supplier network and new negotiations of supplier contracts as well as expanding partner programs
- saving administrative costs by introduction of a uniform IT system and the optimization of the distribution structures.

bb) <u>Macro-economic situation and outlook</u>

The acceleration of global growth observed in recent years is expected to also continue in the mid-term. However, to a great extent this improvement has its basis in the development in markets in which STADA is not present due to focusing on selected regions.

The International Monetary Fund[148] expects for the European region in the coming years a slight reduction in the rates of growth. This normalization results above all for the development forecast for Germany. While the French economy is supposed to continue the most recently observed recovery, a substantially lower growth is expected for Italy. After the boom in recent years, the growth of the Spanish economy is also supposed to flatten.

In the mid-term, the IMF expects in the European region a further increase in consumer prices to the level of an annual rate of 2 % intended by the European Central Bank. This estimate assumes that the deflationary tendencies in the last three years are no longer to be expected. The most recently observed increase in consumer prices especially in Germany is supposed to further accelerate.

The IMF expects for Great Britain, despite BREXIT, approximately stable growth. After the end of the crisis situation in Russia, which led to a reversal of the trend since 2016, the future growth of the Russian economy is supposed to slightly flatten.

The current above-average level in the British inflation rate is expected to settle down to the development of the consumer prices in the European region in the mid-term, according to the estimate of the IMF. Even if substantially above average rates of inflation are expected for Russia, the explosion of Russian consumer prices resulting from the crisis is supposed to become a thing of the past.

The conclusion by way of summary is that the recent, favorable macro-economic conditions will generally continue. The parameters for continuing growth of STADA also in the future are, thus, relatively stable in a macro-economic view and can be considered to be good.

[148] "IMF".

bc) Market and competitive environment

The participants in global pharmaceuticals market are subject to very high complexity which results from the large number of offered products categories, the demand by private market participants as well as public law market participants and the different regulatory requirements.

German producers such as STADA can, on the one hand, profit from the observed and expected continued trend towards globalization by expanding the sales markets. On the other hand, they are subject to increasing competition in their home markets from internationally active competitors. The globalization also results in an increase of currency exchange risk in their home markets.

With regard to the product categories, the global pharmaceuticals market can be divided and attributed to STADA as follows:

§ patent protected prescription medications
§ generics, including biosimilars/bioidenticals (STADA)
§ brand products/OTC (STADA)
§ food supplements (STADA)

Depending on which field of activity pharmaceutical companies are active in within the pharmaceuticals value creation change, the competitors in STADA can be classified as follows:

§ globally integrated pharmaceuticals companies
§ specialized pharmaceuticals companies
§ biotechnology companies
§ generics producers (STADA)
§ companies with the focus on non-prescription healthcare and brand products (STADA)

Depending on the respective national health care system and the related method of distribution, the demand power of the customers in the global pharmaceuticals market is dependent above all on the degree of the unique features of pharmaceuticals and can be described as follows and attributed to STADA:

§ low demand power in the case of pharmaceuticals protected by patents
§ mostly high demand power in the case of generics, especially in the case of a high portion of financing by public health insurance organizations required to make savings, such as in Europe (STADA)
§ relatively high demand power for brand products based on competing products (STADA)

STADA is subject as follows to the general competitive conditions with regard to the suppliers:

§ fragmented supplier network (STADA)
§ high dependency with regard to biotechnology companies due to their development expertise (STADA)

The causes for growth in the global healthcare market are manifold, but they can be generally classified according to a few significant drivers of growth:

- low dependency on economic cycles, but partial dependency on seasonal influences
- continuous growth as a result of globally improved healthcare standards, a stronger perception of risks of illness and the development of new products and possibilities for treatment as a result of medical progress
- continuous growth due to an increase in the world population
- increasing demand due to increasing age in society, especially in the treatment of chronic illnesses
- increasing demand due to a change in lifestyles which are characterized by a reduction of physical burdens and simultaneously increasing unhealthy nutrition
- increase in available medications and treatment methods together with increasing research and development costs, resulting in continuous renewal of the product portfolio for generics producers
- increasing demand due to increasing disposable income and stronger coverage by insurance

limit on the increase in expenditure in the healthcare systems as a result of increasing use of generics and brand products with preventative features

In light of this background, the global pharmaceuticals market is supposed to continue to grow in the period 2016 to 2021 on average[149] by 4.9 % to approx. € 1,300 bn. This growth is above all driven by the development in emerging countries. The global market for generics is supposed to continue the trend in growth with continuing, above average growth on average of 8.0 % in the period 2017 to 2021 to then € 272 bn. The share of biosimilars in the global market for biologicals is expected to increase much more strongly than the traditional generics in the entire global pharmaceuticals market from the current level of 1.0 %. The expected increase in the global market for brand products is within the forecasts for the entire market at 4.8 %, expected to grow to € 107 bn.

Due to the different regulatory parameters in the individual markets, an analysis of the planned accounts of STADA only leads to firm results by separately analyzing the respective markets in the core sales countries of STADA.

[149] Annualized ("CAGR" = Compound Annual Growth Rate). Also the following information on growth rates refers to the CAGR unless the development of a single year is described.

The Valuation Expert first presented the following graphic representation of the main numbers before the analysis of the development of the market in the Top 7 countries for STADA in the text:

Size, characteristics and growth of the pharmaceutical, generics and branded products markets in STADA's core markets

in EUR bn	**DE**	**GB**	**IT**	**FR**	**ES**	**BE**	**RU**	**Top 7**
STADA's total sales share in generics (in %, in 2017)	21.8%	1.7%	12.6%	6.1%	7.8%	9.0%	7.9%	66.9%
STADA's total sales share in branded products (in %, in 2017)	18.5%	17.8%	4.6%	0.5%	2.0%	1.3%	24.6%	69.3%
STADA's generics market position in top 5	✓	✗	✓	✗	✓	✓	✓	
STADA's branded market position in top 5	✓	✓	✗	✗	✗	✗	✓	
Total sales of pharmaceutical market (in 2016)*	**39.9**	**22.5**	**26.1**	**29.9**	**19.1**	**4.9**	**11.9**	**154.3**
Annual growth (2011-2016)	4.5%	6.2%	4.9%	0.8%	3.2%	0.9%	11.2%	4.5%
Annual growth (2017-2021)	3.4%	4.7%	2.4%	2.2%	2.6%	1.4%	8.2%	3.6%
Market segment generics (within the pharmaceutical market)								
Penetration of generics (total sales, in 2016)**	**16.8%**	**24.3%**	**13.7%**	**19.8%**	**16.0%**	**12.0%**	**20.8%**	**18.0%**
Annual growth (2011-2016)	4.9%	10.1%	8.0%	5.6%	5.6%	3.7%	12.3%	
Annual growth (2017-2021)	4.7%	2.2%	4.4%	4.7%	5.2%	2.9%	6.0%	4.3%
Market segment branded products (within the pharmaceutical market)								
Penetration of branded products (total sales, in 2016)	**13.3%**	**7.5%**	**6.0%**	**11.1%**	**3.4%**	**11.8%**	**32.1%**	**11.0%**
Annual growth (2011-2016)	2.5%	3.5%	0.8%	-1.8%	-1.3%	1.6%	10.8%	
Annual growth (2017-2021)	2.5%	1.3%	1.3%	-1.4%	0.1%	2.0%	5.6%	2.2%
∑ penetration of both segments (total sales, in 2016)***	**30.1%**	**31.8%**	**19.7%**	**30.9%**	**19.4%**	**23.9%**	**52.9%**	**29.0%**
CAGR (2017-2021)	3.7%	2.0%	3.5%	2.8%	4.4%	2.4%	5.8%	3.6%

Sources:
QuintilesIMS, Market Prognosis 2017-2021, May 2017, p. 42, p. 50.
Data table, QunitlesIMS, Market Prognosis 2017-2021 - Generics market and OTC market.

* Total market volume of the pharmaceuticals market was converted from USD into EUR, with an assumed exchange rate of EUR/USD 1.08.
** Defines the relationship between the total sales of the generics market and the total pharmaceuticals market.
*** Defines the market volume of the generics and branded products markets.

STADA has a good position compared to the competition in the German market, which is by far the most important market, and is supposed to continue to be able to participate in the continued positive development of the markets for generics and brand products in this home market.

The situation in the other Top 7 countries must be viewed with more differentiation. In Great Britain, where STADA has to date only been able to gain a significant portion of the market in the case of brand products, the expectation is that there will be somewhat slower, yet continuing good in growth. In Italy, STADA is currently only important in the generics segment compared to the entire market. Further growth for STADA can be expected as a result of the still relatively low market penetration of generics in the entire Italian pharmaceuticals market, although the rate of growth will probably decrease in the future. In light of the already high level of market penetration by generics and light of the low market share of STADA, the prospects for growth in France are limited. The expectations for Spain with regard to generics, however, must be considered positive. This also applies, albeit, to a smaller extent, for Belgium. The Russian pharmaceuticals market has a high level of dynamics, and STADA is expected to be able to profit from this in both segments.

The Valuation Expert identified twelve listed companies from the large number of market participants, whose business model is sufficiently comparable with STADA and where the trading on the exchange corresponds to further requirements.[150] Key numbers for these companies are taken into account in

[150] "Peer Group"; see, section D.IV.5.bcf), pp. 79 et seq.

analyzing the planned accounts of STADA and continuing these planned accounts to the sustained level.[151]

bd) Assets, financial position and earnings situation including adjustments

bda) Assets and financial position

The Valuation Expert puts a table in front of the analysis of the assets and financial position in the consolidated balance sheet, in which the description at the level of the line items is summarized separately according to the assets side and the liabilities and equity side (financial situation). The description includes the unadjusted numbers in the reviewed past (31 December respectively of the years 2014 to 2017), the adjustments[152] and adjusted numbers for the starting balance sheet as of 31 December 2017 as well as the planned balance sheets for the detailed planning phase (31 December respectively of the years 2018 to 2020).

The Valuation Expert's discussion of the reviewed past and the adjustments can be summarized and supplemented as follows:

§ High level of fixed assets (31 December 2017: 59 % of the unadjusted balance sheet total)

§ Great importance of the intangible assets[153] resulting from STADA's business model

§ Changes in the book values of the intangible assets primarily as a result of purchasing companies and products, including brands and licenses as well as dossiers and licenses (additions), intention to sell with regard to the subsidiary in Vietnam (deconsolidation and shown at equity in the financial investments) as well as scheduled depreciation and extraordinary reductions in value, primarily for licenses and brand rights (depreciation)

§ Increase in fixed tangible assets[154] above all due to investments in production sites, production equipment and testing laboratories in Serbia, Great Britain, Russia and Germany

§ Increase in financial investments for deconsolidation and showing the subsidiary in Vietnam at equity in the financial assets (see above) due to the specific intention to sell, classified as assets not required for the business (€ 31.0 m) due to the sale, and, thus, eliminated from the financial assets due to reasons of the systematic structure of the valuation (adjustment)

§ Inventories and receivables generally unchanged in absolute numbers

§ Cash and cash equivalents temporarily increased as of 31 December 2016 as a result of taking out a new *Schuldschein* loan in the amount of € 350 m to refinance an expiring *Schuldschein* loan for € 188 m

§ Dividend for the financial year 2017 (€ 52.8 m) classified as an asset not required for the business and, thus, eliminated from cash and equivalents due to reasons involving the systematic structure of the valuation (adjustment)

§ Other current assets as of 31 December 2017 decreased as a consequence of a decrease in derivative financial assets and other financial assets

§ Financing primarily with equity (31 December 2017: 32 % of the unadjusted balance sheet total) and interest bearing liabilities (31 December 2017: 42 % of the unadjusted balance sheet total)

§ Equity increasing due to retaining earnings, offsetting effect as of 31 December 2017 from currency effects in Russia and Great Britain

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151 See, section D.IV.1.c), pp.44 et seq., and section D.IV.4.d), pp. 62 et seq.
152 The term "adjustments" is used in this section as the general term for adjustments in classic meaning of the term and for adjustments made due to reasons of the systematic structure of the valuation.
153 Primarily licenses, trademarks and similar rights as well as good will.
154 Primarily real property, rights equivalent to real property and structures, including structures on third party properties as well as technical plant and equipment.

- Counter position for the adjustments on the assets side totaling € 83.8 m (adjustment)
- Use of the deferred tax liabilities established from deconsolidation of additions for the present value of the fixed assets analogous to the planned depreciation of the relevant assets
- Change in the interest bearing liabilities as a consequence of repayment and refinancing with *Schuldschein* loan (see above)

bdb) <u>Earnings position</u>

The Valuation Expert starts its analysis of the earnings position with a table showing the consolidated P&L summarized in the table at the level of the line items. The description includes the adjusted numbers in the reviewed past (financial years 2014 to 2017) and the planned P&L for the detailed planning phase (financial years 2018 to 2020).

The Valuation Expert also shows the adjustments that were made in transitional accounts in a table and then provides an explanation in the text. Based on this, the Valuation Expert then comments on the adjusted earnings position.

In order to have better comparability of the planning periods with the financial years of the reviewed pasts and in order to explain how the plan was exceeded or how there was a shortfall resulting from special circumstances which were not able to be planned, it is common in valuation practice to analyze the results of the past with regard to the facts having a one-time or non-recurring nature as well as the extraordinary positions or with regard to timing differences. It can also be appropriate to make so-called *pro forma* adjustments which take into account the circumstance that the valuation subject has changed as a consequence of restructuring, acquisitions or sales of businesses or divisions.

The Valuation Expert made adjustments in the first mentioned category. The Valuation Expert based this on the adjusted key numbers reported by the Company in the group management reports for the financial years 2014 to 2016 and the interim report as of 30 September 2017. The Valuation Expert added adjustments for further foreseeable special effects contained in the best estimate for the financial year 2017 with regard to the adjustments reported as of 30 September 2017 for the financial year 2017 which has not yet ended. The Valuation Expert made these adjustments on the basis of information and proof provided by the Company.

The individual adjustments which are not fully shown in the annual reports are then shown in detail. The relevant adjustments involved depreciation and reductions in value which were primarily shown under other expenses and have been adjusted. Furthermore, currency exchange rate effects from fluctuations in currency exchange rates as well as expenses for consulting services had not just a minor influence on the adjusted earnings position.

We were able to reconcile the adjustments that were made for the financial years 2014 to 2016 with the audited management reports and information and specifications which were additionally received without any problems. While the audit by the auditor of the annual financial statements provides a high degree of certainty with regard to completeness and accuracy of the adjustments, the adjustments for the financial year 2017 have not yet been audited by an external party. The conclusion of our audit is that these adjustments are also complete and correct based on our findings.

The Valuation Expert did not make any adjustments in the second category (*pro forma* adjustments). The total sales, adjusted for currency and portfolio effects, used by the Company in the management reporting is considered by the Valuation Expert to be unsuited for valuation purposes and checking the reasonableness of the planned accounts.

We share the opinion that the adjustments reasonably made by the Company for purposes of a comparison between the numbers in a financial year with the previous year are not suitable above all as a consequence of using currency exchange rates for the respective financial year when analyzing a longer period of time. With regard to the portfolio effects, we also find that an adjustment exclusively for total sales can be made without any great effort. A complete adjustment of the P&L based on the portfolio effects, however, requires a simulation of all effects in an initially deemed first consolidation or deconsolidation for all years in the observed period of time, which does not appear necessary in light of the influence which can be considered to be minor in the present case.

Result of the audit

The adjustments that were made assure that the analysis of the planning can be based on comparable developments in the Company's own past.

The discussion by the Valuation Expert about the adjusted earnings position in the reviewed past can be summarized and supplemented as follows:

§ Increase in total sales in an annual average of 3.9 % (CAGR 2014/17) to € 2,304.2 m resulting primarily from the development in the financial year 2017 (+7.7 %) and an above-average performance in the segment brand products (CAGR 2014/17: +5.9 %)

§ Growth of total sales in the financial year 2017 above all resulting from the developments in Belgium and Italy (generics' segment) as well as in Russia, the Serbian sub-group Hemofarm [155] and Great Britain (brand products segment)

§ Substantial improvement of the gross margin [156] in the financial year 2017 to 50.1 %

§ Disproportionately high increase in the costs for distribution and general administration as well as research and development costs generally, especially in the financial years 2015 and 2017

§ Substantial increase in the other expenses in the financial year 2017 based on adjustments in value for lost receivables

§ EBIT and EBIT margin increase continuously to € +329.9 m or by 14:3 % (financial year 2017), after a downturn in the financial year 2015

§ EBITDA and EBITDA margin basically equivalent with the development after depreciation at values of € +435.2 m or 18.9 % (financial year 2017)

§ Financial results improved continuously to € –42.8 m

§ Earnings before income taxes[157] increased continuously to € +287.1 m after a downturn in the financial year 2015

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155 Hemofarm A.D., Vrsac/Serbia; together with its controlled companies within the meaning of § 17 AktG.
156 Also "gross margin"; (total sales – cost of production)/total sales
157 "EBT" (Earnings Before Taxes).

- Development of income taxes benefitted, on the one hand, by using loss carry forwards and, on the other hand, by the lifting of the trade tax charge rate at the headquarters of the Company (2016) and delineation for future tax liabilities (2017)
- Consolidated results (including minority shares) and returns on sales after taxes increased continuously to € +210.6 m or by 9.1 % (financial year 2017) after a downturn in the financial year 2015

c) Main factors for success in the business model

The Valuation Experts summarizes its comprehensive analysis of STADA's business model and includes the market and competitive environment in a swap analysis.[158] This is briefly summarized below:

Strengths	Weaknesses
§ Low dependence on the economy § Established business model and strong position in the market § Product pipeline § Networks for procurement and sales § Production in low cost countries § Economies of scale in procurement and production § Low development risks	§ Influence of regulations § Focus on Europe § Exposure in countries with high foreign currency risks § Pressure on prices and costs § Profitability limited by the full assortment approach § Limited flexibility due to full use of production capacity § Limited knowhow in biosimilars

Opportunities	Risks
§ Demographic development § Increasing importance of the healthcare sector § Increasing demand for cheap pharmaceuticals due to budget restrictions in the healthcare market § Internationalization of nationally successful products § Growth in niche markets (stopping smoking, food supplements)[159] § growth of biosimilars	§ Market entry by competitors from low cost countries and mergers of established competitors § Transaction / translation risks in the case of foreign currencies § Price erosion in generics § Increasing complexity and expense for development § Adaptation of the cost structure in the case of long-term supply obligations § Risks of development/licensing/production for biosimilars

As is apparent from the above list, the strengths and weaknesses as well as the opportunities and risks of STADA in the markets which are relevant for STADA are balanced.

[158] Strengths, Weaknesses, Opportunities and Threats (tool for strategic planning, developed by the Harvard Business School).
[159] "Vaping".

d) Structure and delineation of the valuation subject

STADA including its subsidiaries is correctly viewed as the valuation subject.

The valuation of corporate groups can be carried out in different methods which, if used appropriately, must lead to identical results.[160] The selection of one of these methods depends on the structure of the underlying planned accounts and the management purposes intended with the planned accounts and the question whether a representation of individual values makes sense or is necessary.

In the present case, the business is primarily planned and managed at the level of the Group. In a manner which corresponds to the structure of the submitted planned accounts, the Valuation Expert made a simultaneous valuation at the Group Level and derived the discounted dividends value from the Group planning. The Valuation Expert's analyses also take into account the segments and other breakdown.

We consider the above described approach to be appropriate due to the above stated reasons. We have assured ourselves that the subsidiaries have been completely taken into account when determining the business value of STADA.

By way of summary, we consider the approach taken by the Valuation Expert for the structuring and delineation of STADA as the valuation subject to be appropriate.

2. Valuation date

The legal valuation date for purposes of the "function of delineating information as of the valuation date" is the date on which the GM of STADA will adopt the resolution, i.e. 2 February 2018. This follows for the adequate cash compensation directly from the statute, according to which the circumstances of the company at the time of its GM adopting the meeting must be taken into account.[161] It is also recognized that this legal valuation date also is the mark for determining the adequate guaranteed dividend, for which the statute does not contain a corresponding provision.[162]

The technical valuation date in the sense of "function of delineating value as of the valuation date" was chosen by the Valuation Expert to be 31 December 2017. The Valuation Expert accordingly takes into account the circumstance that the result of the financial year 2018 generated prior to 2 February 2018, in the first place, is not sufficiently delineated and cannot be sufficiently determined during the course of the year and, secondly, that this result has not yet been credited to the outside shareholders of STADA at the time of the GM adopting the resolution due to the accounting and planning in annual periods.

The Valuation Expert assumes for purposes of simplification in the valuation that all annual results arise evenly over the course of the year and that both retained earnings as well as distribution of the annual surplus then occurs directly after the balance sheet date. Accordingly, the net income is attributed to the shareholders at the expiration of the respective financial year.

[160] See, section D.I.2.a), S. 16.
[161] § 305 para. 3 sentence2 AktG.
[162] See, Hüttemann/Meyer in Fleischer/Hüttemann (publishers), Legal Handbook of Business Valuation (*Rechtshandbuch Unternehmensbewertung*), 2015, § 12 no. 33.

The net income is initially reduced to present value to the technical valuation date (31 December 2017) with the specific capitalization interest rates for the time periods and subsequently geometrically increased by interest to the valuation date (2 February 2018).

We consider the above described approach overall to be appropriate. It was also carried out mathematically correctly.

Result of the audit

The valuation date (2 February 2018) is consistent with § 305 para. 3 sentence 2 AktG.

3. Valuation method

The Valuation Expert determined the business value of STADA within a range using the discounted dividends method set forth in IDW S 1. The value of future success and, thus, also the discounted dividends method as a potential approach for determining the value is the determinative and recognized method for determining the values of businesses according to the predominant view in business management theory and in the accounting profession when the value as a going concern exceeds the liquidation value. The case law also recognizes the discounted dividends method as standard practice.

In addition to the range for the objectified business value under IDW S 1 determined in this manner, the Valuation Expert - in accordance with the DVFA-Recommendations - also determined a range for the business value before personal taxes as well as other ranges on the basis of multiples. These analyses, in our opinion, are not suitable for directly determining the business value of STADA and the resulting amounts of the guaranteed dividend and in the compensation under §§ 304 and 395 AktG and the case law on these provisions. We have indirectly referred to them in the course of examining the reasonableness of the determined range for the objectified business value under IDW S 1. Furthermore, we have checked the reasonableness of the result of the valuation also by considering other standards for comparison.[163]

The Valuation Expert did not determine the liquidation value of STADA. The Valuation Expert states that the reason for this approach is the finding that the returns of the invested capital always lie above the levered costs of capital, so that the assumption is that the continuation of the business is more beneficial compared to liquidation. We have verified these considerations and also do not consider it necessary to derive the liquidation value.[164]

The Valuation Expert determined the discounted dividends value, which we consider to be solely determinative, in accordance with the predominant view as the objectified business value, i.e. based on the perspective of a typified shareholder. This typified shareholder is considered to be a fully taxable, national person in Germany who cannot exercise financial nor business policy influence due to the low level of shareholding. Furthermore, the determination of an objectified business value must be made in such a manner that synergy effects which can only result after conclusion of the DPLTA ("genuine synergy effects") are not taken into account, while synergy effects which can also be realized without

[163] See, section D.IV.7, pp. 71 et seq.
[164] See, section 0, p. 69.

the measure ("non-genuine synergy effects") and which are part of the business concept documented as of the valuation date must be considered.

The Valuation Expert also took into account the concept of the "typical purchaser in the market" recommended by the DVFA. This is different from the concept of the IDW S 1, among other reasons, due to a different treatment of synergies. Potential positive synergies resulting from the combination of STADA and the majority shareholder and their direct and indirect shareholders are not apparent. Accordingly, the additional determination of value used by us for the purpose of checking reasonableness is different exclusively with regard to taking into account the taxes on the shareholders.

Result of the audit

We consider the approach of using the discounted dividends method in the described manner for determining the business value of STADA to be appropriate.

4. Determination of the net income to be capitalized

a) Structure of the planned accounts and the planning process

The valuation of STADA, in accordance with the principles in the IDW S 1, assumes a perpetual life of the business of the STADA Group. Since detailed planning is not possible for a perpetual period of time, a difference must be made between the detailed planning phase and the terminal value phase.

The detailed planning phase is determined by the submitted planning of the company which covers the years 2018 to 2010.

The planned accounts of the company have been prepared under IFRS in accordance with the accounting at STADA. This includes an integrated, planned P&L, a balance sheet and a cash flow statement.

The budgeting processing towards the planning and determination of all functional decisions, above all with regard to the following aspects:

§ fundamental decisions about the portfolio and the segments
§ personnel resources
§ investments

The budgeting process also includes the determination of all expenses directly and indirectly related to the selling process and is made generally in an iterative process. The budgeting process follows the reporting of STADA with regard to the financial numbers in the annual reports and the other communications to the capital market. The budget for the first planned year represents the basis for management and supervision of target requirements for the individual planning units during the course of the year.

The budgeting process follows a structured schedule based on requirements set by the Group and includes the following steps:

- By the end of August: transmission by central controlling of the targets (net sales to third parties, EBITDA, after-tax results and net working capital) as well as the royalty rates for internal performance within the Group to the persons responsible for the budget (managing directors) of the individual planning units (individual companies or regional sub-groups)
- By middle of October: report of the intercompany pricing for services and products exchanged within the Group which must be taken into account in the individual planning and the success fees by the respectively responsible functional areas to central controlling
- By the end of October: transmission of the individual plans[165] to central controlling
- Middle of November: presentation to the executive board of STADA by the managing directors of the main units and discussion of necessary adjustments
- By the end of November: aggregation of the adjusted individual plans to a consolidated budget for the entire Group and presentation to the executive board by central controlling in which the main quantitative and qualitative aspects are summarized
- End of November/beginning of December: adoption of the budget by the executive board as well as approval by the supervisory board

The Group planning for the years 2018 to 2020 which forms the basis for the valuation of STADA as of 2 February 2018 was prepared in the course of the normal budgeting process and was adopted by the executive board on 29 November 2017. The supervisory board approved the planned accounts submitted to the supervisory board in its meeting on 1 December 2017.

The Valuation Expert based the valuation on the submitted planned accounts generally without any changes. The few adjustments made for systematic reasons of the valuation[166] involve adjusting the Group balance sheet as a consequence of classifying the participation in STADA Vietnam Joint Venture Co. Ltd., Ho Chi Minh City/Vietnam [167] and the dividend for the financial year 2017 as assets which are not required for the business, reflecting the minority shares within the special values as well as eliminating translation effects which do not have an effect on payments. The Valuation Expert also assumed a distribution of profits in the same phase instead of in a different phase. Further adjustments relate to immaterial differences and reorganization. We were able to verify the starting positions for these changes, the underlying assumptions as well as the methodological consistency of the calculations overall without raising any objections.

[165] The specific planning consists of a qualitative and quantitative part. The qualitative part includes a description of the respective regulatory environment, an analysis of the local market and competitive situation as well as strategic initiatives to show the specific possibilities for growth. This also includes planned introduction of products. The quantitative part covers the financial information relevant for management.
[166] See, Appendices 6 and 7 to the Valuation Report.
[167] "STADA Vietnam". As a consequence of the specific intent to sell: An adjustment of the planned P&L is not necessary because earnings from participations are not included in the plan.

b) Analysis of planning accuracy

In addition to analyzing and evaluating the planning process as such, the Valuation Expert and we also conducted an analysis and evaluated the specific results of the planning processes in the past on the basis of the planning accuracy of the Group level for the main numbers and main management variables at STADA.

According to the findings of the Valuation Expert, the forecasts derived from the respective previous year were mostly met or slightly exceeded in reality in the Group management reports published in the subsequent year, and in the case of the adjusted profit of the Group and the ratio of net debt/EBITDA, they were sometimes also substantially exceeded.

Upon taking into account the established standard planning process, the Valuation Expert finds that there are no indications that the present planned accounts do not constitute an appropriate starting basis for the valuation of the business.

It must be pointed out that the analysis was made on the basis of adjusted numbers. Based on the overall situation and taking into account the planning process described to us and the results of our analysis of the planned numbers for the financial years 2018 to 2020, however, we also consider the presented planned accounts to be suitable for determining the business value of STADA on the basis of those planned accounts.

Result of the audit

The submitted planned accounts can be used to determine the business value of STADA.

c) Analysis of the planned accounts

ca) Results of operations

Compared to the adjusted past, the planning of the EBIT – supplemented with select numbers as well as information from the segments – is as follows:

Stada AG EBIT Plan	Actual (adjusted)			Best Estimate (adjusted)	Planning			CAGR	
€ Mio.	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2014-2017**	**2017-2020**
Total sales	2.053,6	2.115,1	2.139,2	2.304,2	2.414,5	2.520,8	2.676,9	3,9%	5,1%
Production costs	-1.055,7	-1.092,2	-1.092,8	-1.149,9	-1.177,4	-1.190,9	-1.272,3	2,9%	3,4%
Gross profit	**997,9**	**1.022,9**	**1.046,4**	**1.154,2**	**1.237,1**	**1.329,9**	**1.404,6**	**5,0%**	**6,8%**
Costs of sales	-458,4	-482,6	-488,3	-526,2	-570,0	-611,9	-644,4	4,7%	7,0%
General and administrative costs	-152,8	-176,0	-182,0	-200,0	-210,3	-199,1	-203,7	9,4%	0,6%
Research and development costs (R&D)	-56,9	-65,0	-65,1	-72,9	-85,6	-89,4	-99,5	8,6%	10,9%
Other operating income	15,8	17,0	11,8	46,0	2,7	1,7	0,6	42,7%	-76,5%
Other operating expenses	-23,2	-31,0	-27,8	-71,2	-25,5	-25,8	-25,2	45,2%	-29,3%
EBIT	**322,4**	**285,3**	**295,1**	**329,9**	**348,4**	**405,4**	**432,4**	**0,8%**	**9,4%**
Depreciation	109,5	104,1	102,9	105,2	134,7	137,0	136,0	-1,3%	8,9%
EBITDA	**431,9**	**389,4**	**398,0**	**435,2**	**483,1**	**542,4**	**568,4**	**0,3%**	**9,3%**
as % of total sales									
Costs of production quota	51,4%	51,6%	51,1%	49,9%	48,8%	47,2%	47,5%		
Gross margin	48,6%	48,4%	48,9%	50,1%	51,2%	52,8%	52,5%		
Costs of sales quota	22,3%	22,8%	22,8%	22,8%	23,6%	24,3%	24,1%		
Administrative costs quota	7,4%	8,3%	8,5%	8,7%	8,7%	7,9%	7,6%		
R&D quota	2,8%	3,1%	3,0%	3,2%	3,5%	3,5%	3,7%		
Costs of personnel quota	14,6%	15,9%	15,9%	15,2%	15,2%	15,1%	14,6%		
EBIT margin	15,7%	13,5%	13,8%	14,3%	14,4%	16,1%	16,2%		
EBITDA margin	21,0%	18,4%	18,6%	18,9%	20,0%	21,5%	21,2%		
Sales per segment									
Generics	1.261,7	1.261,4	1.280,7	1.353,4	1.408,7	1.428,0	1.504,4	2,4%	3,6%
as % of total sales	61,4%	59,6%	59,9%	58,7%	58,3%	56,6%	56,2%		
Brand products	800,5	853,6	858,5	950,8	1.005,8	1.092,8	1.172,5	5,9%	7,2%
as % of total sales	39,0%	40,4%	40,1%	41,3%	41,7%	43,4%	43,8%		
Adjusted EBITDA share for each segment									
Generics	229,7	232,0	264,9	312,0	316,3	327,9	337,2	10,8%	2,6%
as % of the EBITDA	53,2%	59,6%	66,5%	71,7%	65,5%	60,5%	59,3%		
Brand products	240,0	220,1	200,7	207,9	249,2	290,3	307,2	-4,7%	13,9%
as % of the EBITDA	55,6%	56,5%	50,4%	47,8%	51,6%	53,5%	54,1%		
Other[1]	-37,8	-62,8	-67,5	-84,7	-82,3	-75,8	-76,0	n.a.	n.a

[1] Adjustments for holding and consolidation
Source: information from the company; own analysis

caa) Total sales

The total sales[168] include primarily income from the sale of the offered products, in addition to slight degree[169] also license revenues. The latter are generated above all by Britannia Pharmaceuticals Ltd., Reading/Great Britain.

After the growth of total sales in the past financial year substantially accelerated, in part due to currency exchange rates, the growth is supposed to stabilize at a higher level in the detail planning period (CAGR 2017/20: +5.1 %) compared to the entire observed period in the past (CAGR 2014/17: +3.9 %). The total growth expected by the STADA Group is within the range of expectations for the entire global pharmaceuticals market. The segments and the operationally active units and the main sales markets contribute to different degrees to the expected growth.[170]

After the executive board which is no longer in office had announced a reversal of the relationship between generics (2016: 60 %) and brand products (2016: 40 %), the current executive board intends instead to continuously renew the product portfolio in the generics segment with a significant increase of

[168] The table above and the following analysis consider net sales. Compared to the gross sales, these are the sales with reductions in the form of granted rebates and discounts as well as expenses for warranty and products returns. In the case of different developments resulting from conditions in the market and the product mix in the individual planning units, the rebate quota on average throughout the Group is at the level of 2017 throughout the planning period.

[169] Less than 2 %.

[170] The Valuation Expert focuses in the discussion primarily on the markets (dimension 1). Based on the segment reporting in the annual reports of the Company, our discussion focuses on the segments (dimension 2).

development expenditures, in order to add important indications and invest more in biosimilars, in order to be able to generate smooth economic growth in the core business also in the mid-term. The different expectations for the level of growth in the two segments are reflected in the planned accounts, anyway. As a consequence of the continuing above-average growth in the brand products segment, the relationship between the two segments shifts by the end of the planning period (2020) to 56 % (generics) and 44 % (brand products).

Generics segment

STADA expects overall for the generics segment in the forecast period an average higher growth (CAGR 2017/20: +3.6 %) than in the time reviewed in the past (CAGR 2014/17: +2.4 %). Compared to the global market for generics, the growth, however, is well below average. Due to the different expectations for growth for specific indications and markets, the analysis must place more importance on these dimensions.

The product portfolio of STADA in the generics segment is above all directed towards the regulatory situations in the individual sales markets and includes in total around 800 active substances in around 17,000 products.

The respective importance of most important active substances for STADA is shown in the following table:

Stada AG	Actual	Best Estimate[1]	Planning			CAGR
Total sales in generics segment € mio.	2016	2017	2018	2019	2020	2016-2020
Analysis of active substances						
Tilidin	43,6	26,5	35,9	36,2	34,0	-6,0%
Atorvastatin	24,4	18,9	27,2	28,3	29,1	4,4%
Epoetin Zeta	22,4	18,1	23,9	26,3	26,3	4,1%
Pantoprazole	22,4	16,3	21,6	22,3	23,3	1,0%
Diclofenac	20,6	15,9	20,9	20,8	20,8	0,3%
Total top-5	**133,4**	**95,7**	**129,5**	**133,9**	**133,6**	**0,0%**
Top 5 as % of segment sales	10,4%	n.a.	9,2%	9,4%	8,9%	
Total top-10	**213,7**	**158,7**	**214,2**	**218,4**	**222,0**	**1,0%**
Top-10 as % of segment sales	16,7%	n.a.	15,2%	15,3%	14,8%	
Total top-20	**334,3**	**248,6**	**339,2**	**348,0**	**355,0**	**1,5%**
Top-20 as % of segment sales	26,1%	n.a.	24,1%	24,4%	23,6%	
Delta	946,5	n.a.	1.069,5	1.080,0	1.149,3	5,0%
Total	**1.280,8**	**n.a.**	**1.408,7**	**1.428,0**	**1.504,4**	**4,1%**

1 Analysis of the total sales according to active substances includes only 9 months in 2017

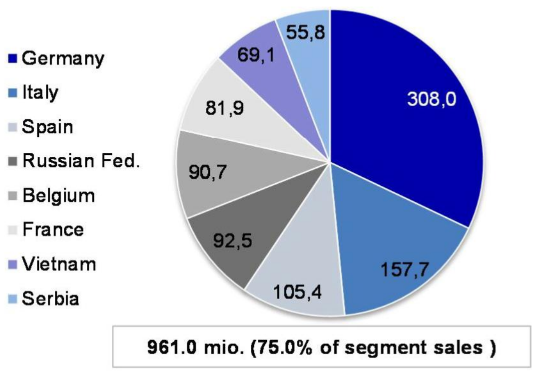
Source: information from Company; ow n analysis.

Compared to pharmaceutical companies engaged in research, STADA, as a generics supplier, does not just have so-called blockbusters. The portion of the Top-5 active substances at around 9 % to 10 % is relatively small. This applies also for the Top-10 and the Top-20 active substances. Thus, the risk for the Company is limited due to a broad diversification.

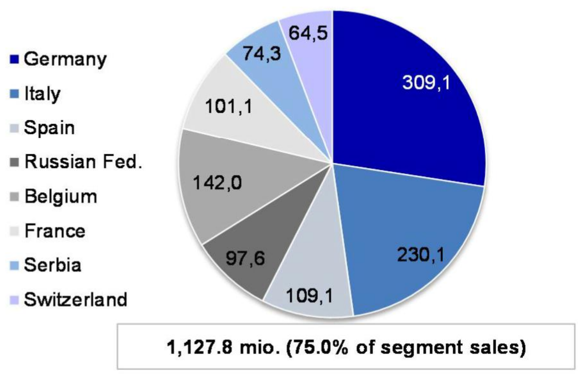
No major shifts in the composition of the total sales are expected in the short to mid-term because STADA would like to compensate for the continuing price erosion of the established active substances above all by increasing volumes. The growth in the generics segment is expected to be generated by introducing new active substances.

The importance of the respective sales markets of STADA in the generics segment is as follows:

Generics - sales top-8 countries for sales - 2016 (act.)
(Mio. €; source: Information from the Company; own analysis.)



Generics - sales top-8 - countries for sales- 2020 (plan)
(Mio. €; source: Information from the Company; own analysis.)



If the portion of the Top-5 countries (2016: 59 %; 2020: 59 %) and the Top-8 countries (see above) in the total sales of the generics segment is considered, there is a much higher dependency of STADA on the development of individual sales markets, especially in Germany and Italy, compared to the active substances. As a result of political or other potential changes, above all in the regulatory circumstances in the most important markets, STADA has an increased risk.

Although the portion of the German sales market in the total sales in the generics segment decreases due to the relatively low expectations for growth of STADA (CAGR 2017/20: +1.6 %), the German market is still by far the most important sales market in STADA's generics segment. The growth expected by the Company is well below the market expectations, based on the numbers from the market research institution QuintilesIMS.[171] The total sales of STADA in Germany are above all generated by the companies ALIUD PHARMA GmbH, Laichingen, and STADAPHARM GmbH, Bad Vilbel. Tender procedures with the health insurance organizations in the German generics market have a major influence on the sold volume and the average price that the market participants can obtain. ALIUD PHARMA GmbH is currently the number two among the dominant suppliers in this strongly regulated market with a high level of competition. ALIUD PHARMA GmbH is accordingly planned on this basis to continue to increase volumes in successfully concluded tender procedures which generate a large portion of its sales. The company intends to counter the expected continuing pressure on prices by participating in bidding groups. The development of ALIUD PHARMA GmbH profits during the planned period especially starting in 2019 also from expansions of the portfolio. STADAPHARM GmbH is expected to suffer a downturn in sales in the financial year muss 2018 due to prices and discounts.

171 The market studies by QuintilesIMS referred to in the external reporting are an important source for estimating the development of the market. However, attention must be paid to the fact that these studies reflect the gross sales at manufacturers selling prices before reductions in proceeds (relevant above all for the generics segment) and also do not reflect the entire product portfolio of STADA (relevant for the brand products segment). Therefore, internal targets at STADA are not linked to these forecasts. However, these forecasts are a suitable starting point for checking the reasonableness of STADA's planned accounts.

The management expects in the financial year 2019 that it can initiate a change in the trend as a consequence of substantial increase in total sales by selling currently offered and newly introduced biosimilars.

The main driver for the entire growth in the generics segment is the growth in the Italian market which STADA plans (CAGR 2017/20: +10.6 %) to be well above the expectations for the relevant market. The company EG S.p.A., Milan/Italy, is well established as the fourth largest market participant in the Italian market. Based on a currently relatively small penetration of generics in Italy, STADA plans to be able to continue to increase the sales based on an increase of volumes and the average prices with the product portfolio that is already offered. Expansions of the portfolio are also planned which are supposed to produce substantial additional growth especially in 2018. As a result of the introduction of biosimilars into the market, the prerequisites for further continuing growth are supposed to be established.

Compared to the expectations for the Spanish generics market, STADA expects to have much more limited growth with Laboratorio STADA S.L., Barcelona/Spain (CAGR 2017/20: +1.2 %). The conditions in the market currently favor brand products compared to generics because there are especially no incentives for doctors to prescribe generics. A potential decision for a substitution lies with the pharmacies. This can be supported by discounting which goes beyond the discounting for the original medications. Laboratorio STADA S.L. has succeeded in this market environment in maintaining the sales at a stable level since 2015 and defending its position among the Top-3 suppliers in the market. Continuing decreases in price in the already existing portfolio as well as discounts for pharmacies are supposed to be compensated by introducing new products. The Company expects an additional effect on sales from biosimilars starting in the planned year 2019. The development of a new distribution channel for hospitals is necessary for this and has been taken into account in the planning. Potential negative effects from the efforts of Catalonia to achieve independence are not reflected in the planned accounts, although the best estimate already shows losses in sales for the financial year 2017.

Throughout the entire planning period there is mathematically negative growth of sales in the generics segment for the Russian market (CAGR 2017/20: –3.1 %). The development results primarily from the expected development of the currency exchange rate. STADA was also able to achieve substantial increases in sales in the local currency in this market in 2017 which are not supposed to continue to grow in this amount. Nonetheless, expectation for the years starting in 2018 are for further growth in sales in the local currency. The comparable numbers from QuintilesIMS show growth in the local currency. The expectations of STADA for growth in the local currency for STADA's generics business in Russia are higher than the growth expected in the entire market. The STADA Group accordingly expects to implement higher prices compared to the competition in the Russian market which is less sensitive to prices due to a high portion of self-payers. The planned sales accordingly take into account, in addition to a growth in volume and new introduction of products, also continuing effects of inflation. Since the STADA Group covers the entire value creation chain in Russia, the persons responsible for the planning do not expect positive or negative effects from initiatives of the Russian government to strengthen domestic production of pharmaceutical products.

STADA expects in the Belgian generics market a continuing disproportionately high growth (CAGR 2017/20: +5.2 %). The company S.A. Eurogenerics N.V., Brussels/Belgium, which is active in Belgium and Luxembourg, is the unchallenged market leader in Belgium. Growth of volumes especially in the existing generics portfolio are supposed to be generated in this position. Starting with the planned year 2018, the Company intends to achieve a stable level of discounting which is the same as in the financial year 2017. This represents a major improvement compared to the past. This shows the success of converting the distribution model as a consequence of terminating the previously existing distribution agreement with Omega Pharma N.V., Nazareth/Belgium, and the expansion of the own sales force.

The expectations for growth at the French subsidiary EG Labo – Laboratoires Eurogenerics SAS, Boulogne-Billancourt/France in the generics market (CAGR 2017/20: +6.9 %) are higher than the expectations for the entire French market which is dominated by two competitors each with a market share of a good 26 %. The planning takes into account the high pressure on prices and the aggressive pricing by the competitors and accordingly assumes a further downturn in prices as well as increasing discounts. According to the expectations, a growing sales volume and introduction of products is supposed to more than offset the downturn in prices. Since France has an important role in the EU in the intended business with biosimilars, the STADA Group is maintaining the company with the existing sales structure despite lower profitability, in order to be able to defend and expand the competitive position with regard to the already existing competition. The first sales from the introduction of biosimilars are taken into account in the planning of sales starting in 2019.

In accordance with the decision to leave the subsidiary STADA-Vietnam Joint Venture Co. Ltd. that was affirmed by signing the so-called "Binding Term Sheet" dated 29 November 2017, the planning for the market in Vietnam includes exclusively sales from the remaining Vietnamese subsidiary. The sales planned for that company in the generics segment are of minor importance with regard to the total segment sales.

The Serbian sub-group, which also services other southeastern European countries, is by far the market leader in the Serbian generics market with around 30 %. Despite an increase in pressure on prices from the main groups of customers in the wholesale trade and hospitals, STADA plans to continuously increase the sales in this market and to do so in a greater extent than is planned for the entire market. The growth results from volumes and pricing. With regard to the development of prices, a further reduction of the granted discounts is intended. The growth in volume is influenced above all by introducing new products. The main driver is the assumption of a continuing reduction in the discounting rate which already had a substantial influence on the growth in sales in the best estimate for the year 2017.

The STADA Group mostly generates its sales in Switzerland through Spirig HealthCare AG, Egerkingen/Switzerland. The sales in Switzerland are supposed to increase from € 50.3 m (2016) to € 64.5 m (2020), so that the Swiss market is expected to be among the Top-8 countries. The growth expected by STADA for the planning period (CAGR 2017/20: 4.6 %) is well above the expectations for the market. This reflects a change in the regulatory parameters starting in 2017 and higher pressure on prices as a result. Growing the volume and new introduction of products are supposed to offset the negative effects from pricing.

Brand products segment

STADA expects overall for the brand products segment that it will have on average higher growth (CAGR 2017/20: +7.2 %) throughout the entire forecast period than in the reviewed past (CAGR 2014/17: +5.9 %). Compared to the global market for brand products, the planned development shows a change in the trend for the planned development. While STADA grew at a rate slightly below the rate in the entire market in the past, above average growth in the market is supposed to be generated in the future. Due to the different expectations for growth for individual brands and markets, the analysis must further address these aspects.

The following table shows the respective importance of the most important brands for STADA:[172]

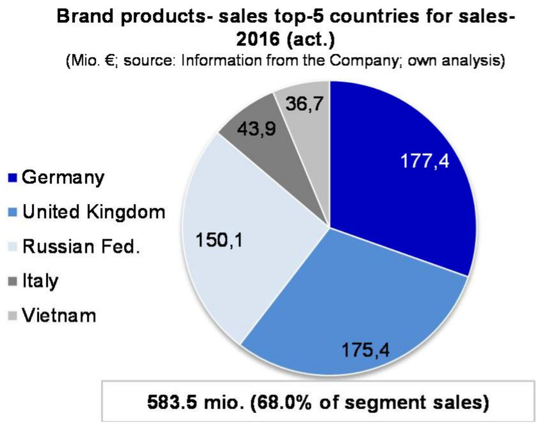
Stada AG	Actual	Best Estimate[1]	Planning			CAGR
Total sales in brand products segment € mio.	2016	2017	2018	2019	2020	2016-2020
Analysis of products[2]						
APO-go	66,6	53,2	68,5	68,9	64,7	-0,7%
Grippostad	43,7	33,9	44,9	45,9	46,5	1,5%
Snup	24,2	30,5	38,9	37,8	38,2	12,0%
Vaping Produkte				43,7	51,7	n.a.
Aqualor		25,1	35,7	37,7	38,8	n.a.
Vitaprost	20,0	22,0	31,3			n.a.
Fulium	22,6					n.a.
Total top-5	**177,2**	**164,7**	**187,9**	**233,9**	**239,8**	**7,9%**
Top-5 as % of segment sales	20,6%	n.a.	18,7%	21,4%	20,5%	
Total top-10	**269,9**	**242,3**	**340,4**	**365,5**	**384,7**	**9,3%**
Top-10 as % of segment sales	31,4%	n.a.	33,8%	33,4%	32,8%	
Total top-20	**406,2**	**349,8**	**499,2**	**531,0**	**560,8**	**8,4%**
Top-20 as % of segment sales	47,3%	n.a.	49,6%	48,6%	47,8%	
Delta	452,2	n.a.	506,5	561,8	611,8	7,8%
Total	**858,5**	**n.a.**	**1.005,8**	**1.092,8**	**1.172,5**	**8,1%**

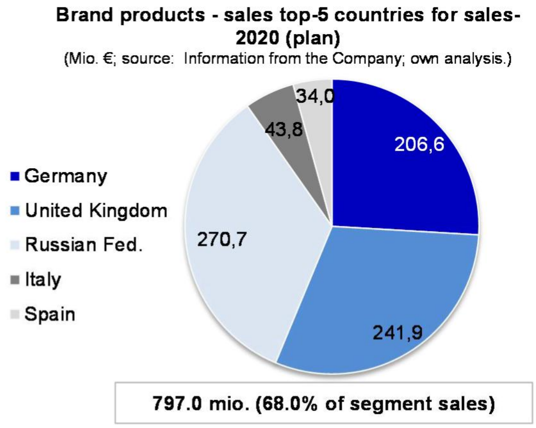
1 Analysis of the total sales according to active substances includes only 9 months in 2017
2 The individual years include sales figures only for the respective Top-5 products. With the listed products were or are consistently achieved
Source: information from Company; own analysis.

The STADA Group will also follow the concept in the mid-term of "strong brands" with a high level of awareness in the market in the brand products segment. As a result of effects of internationalization, the sales in the present portfolio are supposed to be at least maintained, but the sales are supposed to be substantially developed for some brand products.

172 We have left out the sales of brand products generated in the respective financial year due to reasons related to the presentation if the respective brand was not included or was not supposed to be included among the Top-5 products in the relevant financial year (cells in the table not filled with numbers). In fact, sales to a substantial extent were generated in the relevant years with the respective product.

The importance of the relevant sales markets for STADA in the brand product segment is as follows:





When considering the portion for the Top 5 countries (see above) in the total sales in the brand product segment, there is a high dependency of STADA on the development of individual sales markets, especially in Germany, Great Britain and Russia.

The growth of sales in the brand product segment in Germany planned by STADA (CAGR 2017/20: +5.5 %) is well above the expectations for the market. The main driver of growth consists of introducing new products. The STADA Group already believes that it has a good position in Germany with a strong brand portfolio. The sales are generated in Germany primarily by STADA GmbH, ALIUD PHARMA GmbH and STADAPHARM GmbH.

The British market is expected to make a major contribution to the planned growth in the entire brand products segment. The growth of the STADA Group with brand products in Great Britain during the planning period (CAGR 2017/20: 12.7 %) is well above the general expectations for the market. When analyzing this growth, it is also necessary to consider that the planning is even more optimistic in the local currency and that negative currency effects are accordingly taken into account in the shown rate of growth. The sales are generated in Great Britain to the greatest extent by the sub-group led by Thornton & Ross Ltd., Huddersfield/Great Britain and by Britannia Pharmaceuticals Ltd., Reading/Great Britain. A main driver of sales in the subgroup Thornton & Ross is supposed to consist of vaping products. The sales with the product line APO-go, which is one of the main product lines in the Group, are generated in Great Britain primarily by the very specialized company Britannia Pharmaceuticals Ltd., which has a strong export business especially in the USA. A new introduction of a product is assumed to provide further growth in the year 2020.

The growth planned by STADA in the brand product segment in the Russian sales market (CAGR 2017/20: +5.0 %) has the consequence that Russia is supposed to become the most important sales market for brand products in the STADA Group. The planned development in the local currency provides for even higher growth, so that the planning can be considered to be ambitious. The background for this development is the fact that the STADA Group plans to continue to improve its position in a relatively rapidly growing market by expanding the investments in the sales force and marketing. The growth in sales results from a growth in volume with the existing, strong product portfolio as well as from the introduction of new products. Due to the above stated reasons (generic segment), STADA expects that initiatives of the Russian government to strengthen the domestic production of pharmaceutical products will not result in any negative influences.

The sales in the brand products segment in Italy are supposed to be slightly lower due to restrained expectations growth throughout the market (CAGR 2017/20: –0.3 %). The STADA Group is primarily active in Italy in the market for brand products through the companies EG S.p.A. and Crinos S.p.A., Milan/Italy. The downturn in sales in the first planned year results from the intended termination of an important distribution agreement due to low profitability of the relevant portfolio by EG S.p.A. The subsequent growth to a level that is comparable with the financial year 2017 is supposed to be achieved by the positive development of Crinos S.p.A. The company changed the distribution model in the financial year 2017 and is again itself distributing products that have been previously licensed out. The portfolio has already shown its strength by the fact that the Top-10 products in the financial year 2017 will account most likely for around 83 % of the total sales. Based on this, a growth in volumes and prices continue to be planned in the detailed planning phase. Growth will also be complemented by introducing products.

The planning for the market in Vietnam includes almost exclusively sales from the remaining Vietnamese subsidiary after separating from the subsidiary STADA-Vietnam Joint Venture Co. Ltd., so that the market in Vietnam will in the future no longer be one of the most important sales markets in the brand products segment.

However, the Spanish sales market will gain importance as a result of an extraordinary growth for the brand product segment which is far above the expectations for the market (CAGR 2017/20: +21.9 %). The persons responsible for the planning support their expectations with the already strong positioning of the individual brands and the introduction of new products.

Summary evaluation

The Valuation Expert checked the total sales planned by STADA for reasonableness also by a comparison with the expectations of the comparable companies. We have been able to verify these analyses without having any cause for objections, and we have also taken into account this assessment of the reasonableness of the planned sales. Overall and upon considering the main strengths and weaknesses as well as the main opportunities and risks of STADA's business model,[173] we consider the planned sales in the individual sales markets to be ambitious, but still achievable.

[173] See, section D.IV.1.c), S. 38

cab) Results of operations

Gross profit

The costs of production at the STADA Group are very small due to the business model. They include, in addition to the costs for the sold products, also the procurement costs for the merchandise that is sold or provided free of charge. Furthermore, the costs of production include the costs directly attributable to merchandise[174], overheads[175] as well as value adjustments on inventories. The included depreciation contained is at a relatively constant portion of approximately 8 % which decreases to approximately 7 % at the end of the detailed planning phase (2020).

The cost of production quota decreases in the planning period by around 3.5 percentage points to 47.5 % (2020) compared to the average in the reviewed past (51%). The cost for this development is the fact that the planning includes savings and production costs of approximately 2 % annually in accordance with the declared goals of the executive board. The individual operating units are already required to take into account savings potential in the planning. In addition, various consulting projects have identified initially top-down and current bottom-up for measures for savings throughout the entire valuation creation chain in the individual operating units. Group controlling has taken this into account in the group-wide adjustments in the planning process.

The gross margin increases from an average of 49 % in the reviewed past to 52.5 % (2020). This improvements results, in addition to the described measures to improve the costs of production quota, also from the increase in the portion of sales in the brand product segment. Due to the lower regulatory influences, generally high gross margins can be generated with brand products. The STADA Group intends in all segments to continuously optimize the product portfolio by focusing on niche products in individual countries, newly positioning and internationalizing existing, successful brands as well as introducing new products. The comparison made by the Valuation Expert with the margins of the peer group shows, that STADA is coming close to the higher level of the comparable companies in accordance with the expectations.

Costs of sales

The costs of sales include, in addition to the costs for the sales departments, the external sales force and logistics, also the costs for advertising and marketing, including samples for doctors. These costs represent by far the second most important category of costs after costs of production.

The sales cost quota increases compared to the average in the reviewed past by around 1.4 percentage points to 41.1 % (2020). This increase results from the intended measures to defend and expand the market position in all major sales countries for the STADA Group. An analysis of the portion of the classical distribution and marketing costs shows that the disproportionate increase compared to total sales results from expanding the marketing costs which grow at an annual average of 9.6 %. The increase is consistent with the communicated strategy in the brand products segment. Both the introduction of new products as well as the internationalization measures for existing brands involve high marketing costs and costs for introducing products.

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[174] E.g. costs for materials and personnel.
[175] E.g. depreciation on production plant and equipment and pharmaceutical permits and licenses.

In order to achieve the sales forecast in the mid-term for the business with biosimilars intended with the change in strategy, the development of a specialized sales team is already included in the planning period, in order to already developed the necessary customer relationships, especially with hospitals, in advance of the respective introduction of a biosimilar product.

At the end of the detailed planning phase, both the marketing costs quota of 10.7 % (2020) as well as the other costs of sales quota of 13.4 % are only slightly above the average observed in the past.

General and administrative costs

Due to the fact that the best estimate year 2017 is characterized by a relatively high expense for consulting for cost reduction programs, legal advice and implementation of IT and these costs are planned to decrease during the detailed planning phase, the quota for the costs of personnel increases in the detail planning period.

Overall, the planning is consistent with the cost savings intended by the executive board and leads to an improvement of the administrative costs quota by approximately 1.1 percentage points in the detail planning period to 7.6 % (2020). This is also below the average in the adjusted past (8.2%).

Research and development costs

The STADA Group does not conduct any own research for pharmaceutical active substances either in the current business model or in the future. This position accordingly includes development costs. The executive board of STADA reconsidered in the financial year 2017 the strategy with regard to the business model with biosimilars. STADA is currently following a strategy of purely obtaining licenses. At the present time, measures are being taken to develop biosimilars in the future in cooperation with specialized partners. Although the STADA Group assumes marketing and distribution functions, the STADA Group bears the development risk in the agreements.

Accordingly, and as a result of the increase in ongoing regulatory costs, the F&E costs quota increases from 3.2 % (2017) to 3.7 % (2020). The discussion by the Valuation Expert shows that a comparison of this quota of the STADA Group with the quota of the peer group companies is not useful due to the differences in the business models as well as in the accounting.

Other income / expenses

The other income in the best estimate year include primarily currency exchange rate profits, earnings from reversing correction in value on receivables as well as compensation from insurance companies. The other income in the amount of € 4.2 million furthermore includes the results reorganized by the Valuation Expert from the financial results for reporting purposes due to the at equity balance company BIOCEUTICALS Arzneimittel AG, Bad Vilbel. The planned other income includes primarily benefits in kind, including also charging on costs from service contracts with subsidiaries that are not fully consolidated up to the planned year 2019.

The other income prior to the reallocation by the Valuation Expert is substantially lower in the detailed planning phase than in the past because this position mostly shows income which has led to an expense in other periods. Thus, the appropriate determination of profit in the periods and the principle of caution in accounting must be observed, although they are not relevant for planning and valuation purposes.

The results from the companies included balance sheet at equity are assumed to have a constant amount of € 0.6 million in the detailed planning phase.[176]

The other expenses are also planned by ignoring the effects from the determination of profit for the specific periods and the principle of caution and, therefore, are substantially lower than in the adjusted best estimate year 2017. These other expenses include primarily the need for write-downs derived from experience in the past for pharmaceutical licenses as well as compensation costs and currency exchange rate effects.

The Valuation Expert supplemented the planning of the other expenses by an annual amount of € 0.2 m for reasons involving the system use for the valuation.

Costs for personnel

Cost for personnel are not separately shown in the P&L in the cost of sales method. For purposes of the further analysis, we have obtained the following breakdown of the costs for personnel allocated to the individual functional area.

Stada AG Costs of personnel according to function € mio.	Actual (adjusted)[1]			Best Estimate[1]	Planning[1]			CAGR
	2014	2015	2016	2017	2018	2019	2020	2017-2020
Costs of production	76,2	84,0	86,7	88,0	85,2	86,1	86,4	-0,6%
Distribution	105,8	107,4	103,9	108,0	119,3	128,8	134,1	7,5%
Marketing	17,7	20,2	20,5	18,9	21,9	22,3	22,9	6,6%
Administration	69,8	92,2	96,9	99,4	100,8	104,8	108,5	3,0%
Research & Development	29,8	33,4	33,0	36,8	39,5	39,8	39,3	2,2%
Total	**299,3**	**337,3**	**341,0**	**351,0**	**366,6**	**381,8**	**391,3**	**3,7%**

[1] Before taking into account extraordinary costs of personnel resulting from compensation situations w hich are not attributable to the individual functions
Source: Information from the Company; ow n analysis.

The planned accounts of the STADA Group prepared bottom-up do not include any planning for the employees or full-time equivalents. An analysis of the development of the costs of personnel based on volume and price effects is not possible on this basis. The number in the STADA Group used for management is the costs of personnel quota. It decreases in the detail planning period from 15.2 % (2017) to 14.6 % (2020). That is consistent with the information provided to us about expected increases in salaries. The above development of costs of personnel based on functional areas is also consistent with the other information provided to us, namely, above all the measures in distribution and marketing required to realize the growth in sales. The reduction of the costs of personnel included in the costs of production results from deconsolidating the subsidiary in Vietnam.

EBIT

As a consequence of the planned gains in efficiency reflected in a substantial improvement of the costs of production quota and an improvement also in the quota for administrative costs, and the increasing costs of contribution quota and costs for development quota resulting from the strategy, the EBIT margin improves in the detailed planning phase from 14.3 % (2017) to 16.2 % (2020). The planned

[176] The financial year 2017 is not comparable with the expectations due to special influences.

EBIT of € 348.4 m (2018) to € 432.4 m (2020) exceeds both the historically achieved values as well as the values in the expectations of analysts that are available.

This substantial improvement results especially from the sub-group Thornton & Ross, and also from the Russian sub-group as well as the companies active in southeastern Europe, Italy and Belgium.

EBITDA

The EBITDA margin also improves substantially (from 18.9 % in 2017 to 21.2 % in 2020) primarily corresponding to the improvement in the EBIT margin and is accordingly also well above the average in the reviewed past. The brand products segment contributes substantially to the improvement. The EBIT margin in this segment is expected to increase to 26.1 % by the end of the planning period, while an EBITDA margin of 22.4 % is expected at the end of the planning periods for the generics segment.

Especially due to the positioning of STADA as a full assortment provider in a large number of markets, STADA overall generates a lower EBITDA margin than the median of the comparable companies. They have, to a great extent, a stronger focus on individual products with strong margins or specific selling markets.

Final evaluation of the planning of the results of operations

The Valuation Expert summarizes as the result of its analyses that the Valuation Expert considers the planned accounts down to the level of the EBIT to be reasonable. Overall, and taking into account the main strengths and weaknesses as well as the main opportunities and risks in STADA's business model[177] we consider this conclusion to be appropriate.

cb) Net income

Based on the EBIT, the net income after taking into account the financial results and the business taxes is as follows:

Stada AG Net income	Actual (adjusted)			Best Estimate (adjusted)	Planning			CAGR	
€ Mio.	2014	2015	2016	2017	2018	2019	2020	2014-2017	2017-2020
EBIT	322,4	285,3	295,1	329,9	348,4	405,4	432,4	0,8%	9,4%
Financial results	-69,1	-64,4	-50,9	-42,8	-46,1	-44,1	-39,0		
EBT	**253,3**	**220,9**	**244,2**	**287,1**	**302,3**	**361,3**	**393,5**	**4,3%**	**11,1%**
Taxes on income	-61,4	-48,6	-58,4	-76,5	-83,1	-98,5	-105,1		
Net profit	**191,9**	**172,3**	**185,8**	**210,6**	**219,2**	**262,9**	**288,4**	**3,2%**	**11,0%**
Number (as %)									
Income tax quota (as % of the EBT)	24,2%	22,0%	23,9%	26,6%	27,5%	27,2%	26,7%		
Net income (as % of total sales)	9,3%	8,1%	8,7%	9,1%	9,1%	10,4%	10,8%		

Source: information from the company; analysis by the Valuation Expert; own analysis

Financial results

The Valuation Expert used the financial results planned by the Company, taking into account the reallocation of the results from the shares in the other income valued at equity,[178] without making any adjustments.

The shown financial results include, in the first place, interest expenses for financial liabilities taken out in the capital market which decrease through the planning period from around € 27 m (2018) to

[177] See, section D.IV.1.c), p. 38.
[178] Results from participations were reallocated in the past.

approximately € 20 m (2020). This increase in the interest expense results from amortization and an assumed refinancing of the remaining financing needs at more favorable conditions. We were able to verify the currently valid conditions of the 14 bonds and *Schuldschein* loans issued by STADA as of 30 June 2017 having face values of approximately € 1.38 bn. These mid-term to long-term financial liabilities must be serviced at an average weighted interest rate of 1.63 % and have a term of four to seven years.

Secondly, the financial results contain the expenses resulting from currency futures transactions (€ 18 m) planned by STADA to remain in the same amount, in order to hedge the internal Group loan granted to a Russian subsidiary in ruble (converted, € 180 m). From the point of view of the Group, these transactions secure the exposure of the STADA Group in ruble. STADA derived the expense from the currency hedging transactions on the basis of the experience in the past and taking into account volume effects. We were able to verify this on the basis of the documents submitted to us and the supplemental explanations by the Company.

The financial results also include interest expenses for pension liabilities (€ 0.8 m) as well as for the utilization of short-term loans and current account liabilities owed to banks to finance the working capital. Starting in the financial year 2018, a higher working capital must be financed because the sale of receivables used up to 2017 is no longer supposed to take place. Interest income is not applied in light of the currently expected conditions in the short term to the mid-term.

Our audit has not resulted in any reasons to object against the planning of the financial results.

Business taxes

The business taxes are determined for the German consolidated group centrally and otherwise locally by the respective planning units. Based on the ongoing tax expenses calculated by the planning units on the basis of the respective tax laws, the tax expense is adjusted by taking into account-deferred taxes on book value differences between the assets and obligations shown in the tax balance sheet and the balance sheet prepared under IFRS.

The Company has applied the applicable corporate income tax rate (including solidarity surcharge) of 15.825 %[179] to the tax basis resulting for the German consolidated companies after using loss carry forwards and taking into account provisions on correction of taxes. The trade tax for the consolidated group is calculated after further taking into account additions and reductions as well as an interest carry forward in the tax basis and the current trade tax rate for Bad Vilbel of 12.495 %.[180] This results in the income subject to German taxation having a combined nominal business tax rate of approximately 28.3 %.

The decentralized planning of the foreign tax expense, according to the provided information, is made on the basis of the respectively applicable national tax legislation, whereby foreseeable changes, especially in the tax rates, are taken into account. The controlling department for participations checks

[179] 15.0 % plus 5.5 % of 15.0 %.

[180] Product of the trade tax measurement number (3.5 %) and the trade tax charging rate for Bad Vilbel (357 %). Due to reasons of simplification, the Company does not break this down. This simplification does not have any detriment for the outside shareholders.

the reasonableness of the respectively planned values. The foreign effective tax quotas for the seven largest country companies are in a range of approximately 10 % (Serbia) to approximately 32 % (Russia).

The relatively low effective tax quotas in the financial years 2014 to 2016 are especially influenced by the use of tax interest carry forwards as well as using loss carry forwards in the German consolidated group for purposes of corporate income tax and trade tax. There is a counter-effect in the financial year 2016 resulting from the increase in the trade tax charging rate in Bad Vilbel. The comparably much higher tax quota in the best estimate year 2017 results especially from the tax deferrals for future tax liabilities established already in the 3rd quarter of 2017.

The higher effective tax quotas starting in 2017 compared to the previous year's result from exhausting the loss carry forwards for tax purposes. The effective tax quota reaches the expected tax quota for the planned years. The downturn in the actual tax quota through the detail planning period results primarily from the result lowering of the nominal tax rate in Belgium from 34 % (2017) to 25 % (2020) and in Great Britain from 20 % (2017) to 17 % (2020).

The Valuation Expert used the expense for income taxes calculated by the Company in the expert's valuation model without any changes.

We have been able to verify the tax planning of the Company by reconciliation and checking the reasonableness of the resulting tax expense without identifying any reason to raise objections.

cc) Balance sheet

The Valuation Expert used the planned balance sheet of the Company in the expert's valuation model without any changes, except for the adjustments made due to reasons in the valuation system.[181] The consolidated balance sheet for the observed period of time is as follows:

Stada AG Balance sheet	Actual (adjusted)			Best Estimate (adjusted)	Planning			CAGR	
€ mio.	2014	2015	2016	2017	2018	2019	2020	2014-2017	2017-2020
Intangible Assets	1.631,5	1.649,0	1.582,4	1.501,4	1.470,8	1.496,7	1.534,1	-2,7%	0,7%
Tangible Assets	305,4	321,6	322,7	337,8	369,9	389,3	406,4	3,4%	6,4%
Financial Assets	12,6	14,5	16,1	19,3	19,8	20,4	20,9	15,2%	2,7%
Fixed Assets	**1.949,6**	**1.985,1**	**1.921,2**	**1.858,5**	**1.860,5**	**1.906,4**	**1.961,4**	**-1,6%**	**1,8%**
Inventories	498,8	501,5	484,9	496,8	546,4	564,4	605,9	-0,1%	6,8%
Cash and Equivalents	502,8	485,9	489,1	503,2	595,5	623,0	632,7	0,0%	7,9%
Other Current Assets	164,2	143,2	352,6	149,1	83,2	107,0	127,5	-3,2%	-5,1%
Deferred Tax Assets	170,7	137,6	171,9	102,6	112,5	121,5	150,8	-15,6%	13,7%
Current Assets	49,4	34,1	20,8	25,5	25,2	25,6	25,9	-19,8%	0,5%
Total Assets	**1.385,9**	**1.302,3**	**1.519,3**	**1.277,3**	**1.362,8**	**1.441,5**	**1.542,7**	**-2,7%**	**6,5%**
Total Assets	**3.335,5**	**3.287,4**	**3.440,4**	**3.135,7**	**3.223,3**	**3.347,9**	**3.504,1**	**-2,0%**	**3,8%**
Equity	903,3	1.018,5	1.047,1	949,9	1.080,8	1.157,8	1.286,9	1,7%	10,7%
Provisions	17,4	22,5	20,3	17,6	15,9	16,4	17,2	0,4%	-0,9%
Deferred Tax Liabilities	166,7	160,2	116,4	99,0	96,5	93,6	91,4	-15,9%	-2,7%
Interest Bearing Liabilities	1.524,9	1.390,0	1.510,1	1.364,3	1.272,8	1.264,2	1.252,5	-3,6%	-2,8%
Non-Interest Bearing Liabilities	723,1	696,1	746,6	704,8	757,3	815,9	856,1	-0,9%	6,7%
Total Liabilities	**3.335,5**	**3.287,4**	**3.440,4**	**3.135,7**	**3.223,3**	**3.347,9**	**3.504,1**	**-2,0%**	**3,8%**
Key Numbers									
Inventory life (in days)	170,1	165,3	159,7	155,5	167,1	170,6	171,4		
Collection time for receivables (in days)	88,1	82,7	82,3	78,6	88,8	89,0	85,1		
Payment time for liabilities (in days)	116,2	108,3	111,0	101,5	101,8	101,2	103,8		
Cash and Equivalents (as % of total sales)	8,0%	6,8%	16,5%	6,5%	3,4%	4,2%	4,8%		
Interest Bearing Debt/EBITDA[1]	3,5	3,6	3,8	3,1	2,6	2,3	2,2		
Equity quota (as % of balance sheet total)	27,1%	31,0%	30,4%	30,3%	33,5%	34,6%	36,7%		
Return on Capital Employed[2]	n.a.	11,7%	12,3%	12,9%	15,1%	17,2%	17,9%		

[1] EBITDA after making eliminations and adjustments by the Valuation Expert.
[2] ROCE = EBIT / invested capital (Fixed Assets + Working Capital)
Source: Information from the Company; Analysis by the Valuation Expert; Own Analysis.

The assets side increases in the analyzed time period 2017 to 2020 by € 368.4 m. The reason for this involves primarily the increasing inventories resulting from the growth in sales and the disproportionately growing level of trade receivables resulting from the elimination of the factoring agreements at the beginning of 2018 and additions to the fixed assets resulting from increased investments, primarily due to the entry into the market for biosimilars and the expansion of the production capacities as well as a conversion of the IT infrastructure.

The investment quota compared to sales increases in the planning period to 7.1 % and is at the level of the median expected for comparable companies in the last two planned years. The inventory life and the collection time for receivables are also in the range in the expectations for the comparable companies.

The cash and cash equivalents do not develop in a uniform manner and do not have much informative value due to the reference to a specific date. They are also influenced, among other reasons, by repayments and taking out long-term financial liabilities. The substantial decrease as of 31 December 2018 results primarily from the elimination of factoring and is influenced in the further development by the dividend payments which are assumed to take place in the same phase in the valuation model.

[181] See, section D.IV.1.bd), pp. 35 et seq., and D.IV.4.a), pp. 41 et seq., as well as Appendices 6 and 7 to the Valuation Report.

According to information from the Company, liquidity for the operational business is required on average at least at an amount of € 140 m to € 180 m. With regard to the sales planned for the financial year 2020 this would correspond to a quota of 5.2 % to 6.7 %.

The liabilities and equities side of the balance sheet increases in the planning period, after taking into account the repayment the interest-bearing liabilities, primarily as a result of growth in equity from retained earnings and the increase in non-interest bearing liabilities which include translation effects from adjustments made by the Valuation Expert.

The planned significantly improved result enables the Company to repay loans and retain earnings, so that the equity quota increases substantially. This development is reflected also in the continuous improvement of the number "debt/EBITDA" of 2.2.

The levering in the past, which was well above the levering in the peer group companies, comes close to the level of the peer group. The return on capital employed[182] increase over the course of the plan significantly from 12.9 % (2017) to 17.9 % (2020). The ROCE accordingly exceeds the current level of the median that can be observed in the peer group companies.

We were able to verify the planned balance sheet of the Company upon taking into account the adjustments for purposes of the valuation system without finding any reason to raise objections.

Result of the audit

The planned accounts of the company are overall reasonable and, therefore, can be used for the present purpose of the valuation, upon taking into account the adjustments carried out for reasons of the valuation system.

d) Convergence and continuation phase

The Valuation Expert correctly finds that the Company is not yet in a stable status at the end of the detail planning period (2020).

In order to derive the sustained EBITDA, the Valuation Expert accordingly transitioned the aspects of the detailed planning phase to a sustained, average expected EBITDA by using an interim, technical convergence phase of three years. The sustained EBITDA represents the future earnings power of the STADA Group upon assuming a perpetual continuation of business without carrying out investments for expansion, such as e.g. acquiring companies or individual product portfolios.

The analysis of the Company's history as well as the planning has shown that as a result of the annually increasing pressure on prices in the relevant sales markets which goes beyond the detail planning period, decrease in growth in sales is expected. The executive board of the Company shares this expectation. In light of the further pressure on pricing and from competition in the generics business and the lower possibilities for growth resulting from the fact that there is already a strong market position in

[182] "ROCE" = Return on Capital Employed.

the brand products business, and taking into account the opportunities, especially from introduction of new products such as biosimilars, and taking into account the risks, the Valuation Expert expects the sustained growth to be 1.25 %.[183] The Valuation Expert accordingly normalized the growth in sales in the last planned year (2020) by a linear decrease to the sustained growth in sales of 1.25 %. The normalized, sustained volume of sales resulting on this basis if € 2,952.2 m.

We consider the circumstances limiting growth to which the Valuation Expert refers to be reasonably well-founded.

The Valuation Expert calculated the sustained EBITDA by using the resulting level of sales and applying a normalized EBITDA margin. In order to examine the results from the analysis of the planned accounts, the Valuation Expert discussed the sustained profitability with the chief financial officer of the Company while we participated. Upon assessing the sustained EBITDA margin that can be achieved, the chief financial officer considers the EBITDA margin used in the detailed planning phase to have a level which was achieved in the past. The level of 21.2 % achieved in the last planned year (2020) reflects the increases in efficiency and costs savings assumed in the planning.

The gross margin of 52.5 %, according to the opinion of the chief financial officer, can be at most assumed to remain constant due to the expected continuing pressure on prices and the related increasing need for savings in the costs of production. This assumption is said to already include the expected positive effects from the biosimilars business, which is supposed to contribute to permanently solidifying the market position of the STADA Group.

An increased need for distribution and marketing activities is shown in the planning for the purpose of securing the competitive position and the sales volume, and these activities are also carried forward on a sustained basis. An improvement in the EBITDA margin that goes beyond the last planned year (2020) is, thus, only possible through increases in efficiency or lowering general administrative costs or costs for development, in addition to changes in the product mix in favor of products with stronger margins, including also biosimilars. Since increased costs for development are taken into account in the detailed planning phase as a result of the change in the strategy for biosimilars and the fact that these costs lead to sales revenues only later, the expectation is that the EBITDA margin will increase.

The Valuation Expert estimated the sustained EBITDA margin at 23.0 % for these reasons and modeled a linear increase over two years to this level.

There is no reason to object to this in our opinion, particularly since the chief financial officer also believes that an EBITDA margin of 23.0 % is at the upper end of the estimates. Compared to the profitability in the reviewed past, a sustained, substantial improvement is reflected in the model.

Due to the necessary investments in the own production sites, the development of biosimilars and the IT infrastructure in the recent past, the depreciation is expected to already increase in the Company's planning period. In light of the high use of capacity and the age of some production sites, the Valuation

[183] In Variation 2, the Valuation Expert applied the discount rate at 1.0°% for reasons of consistency when applying a market risk premium after personal taxes of 5.5 %. With regard to the evaluation, see section D.IV.5.c), pp. 87 et seq.

Expert estimates that a sustained growth need for investment of 7.0 % of total sales will be needed to realize the sustained sales volume. This range is stated to be under the average at peer group companies observed over the long term.

There is no reason to object to this in our view, particularly since the chief financial officer also believes that the investments must be estimated in this size over the long term.

As a result, there is sustained depreciation in the amount of € 181.8 m and a sustained EBIT of € 498.5 m. This is well above the results generated in the past and the results forecast for the planned years.

In light of the explanations we received and our understanding of the business model, we consider the assumptions by the Valuation Expert made to derive the sustained expected average EBITDA and the resulting EBIT and to transition these amounts in the convergence phase to be well-founded and reasonable. We were able to check the corresponding calculations without identifying any problems.

The financial results expected by the Valuation Expert are calculated starting in 2021 on the basis of the existing levels of cash and equivalents in the amount of the minimum cash on hand for operations considered by the Company to be necessary and the existing volume of long-term debt.

The portion of cash and equivalents compared to total sales converges over the period of time following the detailed planning phase to an amount of 5.8 %, which is also considered by the Company to be the sustained level. ValueTrust assumes interest on these amount of 0.63 % which increases to 1.25 %.

The Valuation Expert derives the long-term interest rate on debt of 2.25 % applied in the convergence phase – after discussion this with us – on the basis of corporate bonds having corresponding terms and a rating BBB.

Since the Company is not itself rated, we had to verify the explanations received on this aspect from the Valuation Expert on the basis of a comparison with the peer group as well as on the basis of information from the Company and our own considerations. We conducted our own studies on the amount of the sustained, applicable debt interest rate on the basis of the interest rates observed in the past for corporate bonds in the healthcare sector with equivalent terms having a rating of BBB. During the observed period of 6.5 years, the average interest rate was 2.2 %.[184] Based on the currently low interest in the market, the expectation is that there will be a sustained tendency for interest rates to increase for all durations both for interest on loans as well as for interest on positive account balances. Taking into account the analyses and considerations, we consider both the sustained interest rate on debt applied by the Valuation Expert as well as the interest on positive balances for cash and equivalents to be reasonable.[185] Furthermore, the financial results include the interest expense for pension obligations in the amount of 2.0 %.

184 Source: S&P Global.
185 The same interest rates as in Variation 1 were used by ValueTrust in Variation°2, but on lower level of cash and equivalents and interest bearing liabilities as a consequence of the growth rate of 1.0 % which takes effect starting in the year 2023, so that the financial results in the terminal value are € 0.2 m better than in Variation°2.

The Valuation Expert verified by questioning the Company that an effective tax rate of 26.7 %, which results mathematically from the tax quota determined by the Company in the last planned year (2020), must be considered to be the sustained rate.

We consider this to be reasonable, particularly since higher taxes than average apply for the German consolidated group (tax rate of 28.3 %) and the companies located in Russia (tax rate of 30.0 %) which in total constitute more than half the tax assessment bases.

The development of the balance sheet assumed by the Valuation Expert in the convergence and continuation phase can be explained by taking into account the historic development of individual line items in the balance sheet together with the explanations received from the Company as well as also be comparing key numbers to the level in the peer group.

The key numbers and developments in the existing status implicitly taking into account by the Valuation Expert in a verifiable amount have the effect in the balance sheet of an increase of the ROCE to 18.4 % (2023),[186] which lies within a range of the ten-year average (19.5 %) and the ten year median of the peer group (16.9 %).

Result of the audit

The Valuation Expert derived the continuation of the planned accounts in the convergence and continuation phase in a reasonable and verifiable manner.

e) <u>Net income after personal income taxes</u>

Pursuant to IDW S 1, the assumption must be made when determining objectified business values for the detail planning period that those financial surpluses will be distributed which are available after taking into account the business concept documented as of the valuation date and the legal restrictions. The assumption is generally made for the terminal value phase that the distribution policy of the subject of the valuation is equivalent to the distribution policy for the alternative investment unless there are special aspects in the industry, the structure of the capital or the legal parameters which must be considered.

The Valuation Expert applied the distributions planned by the Company in the detailed planning phase. The resulting distribution quota is approximately 40 %. The Valuation Expert assumed a distribution quota of 40 % also in the in the convergence and continuation phase which corresponds to the planned distribution policy of STADA observed in recent years.

In order to have an equivalent between the numerator and the denominator in the equation for the valuation, the professional writings recommend using the same peer group used as a reference for determining the beta factor for determining the sustained distribution policy of the valuation subject. According to the findings of the Valuation Expert, a distribution quote of 40 % also corresponds to the average distribution policy of the peer group companies.

186 The ROCE in Variation 2 is 18.2 %.

Since the distribution policy of the peer group companies was quite different among each other, we additionally refer to calculations of average market distribution quotas for German listed companies. The studies confirm on average distribution quotas of 40 % to 60 %. The applied distribution quota of 40 % is at the lower end of this range and does not give any reason to raise objections in light of the purpose of the examination of determining the adequacy of the cash compensation.

We also consider the distribution policy assumed for the convergence and continuation phase to be appropriate on this basis.

The Valuation Expert divided the distributions remaining after the retention of earnings for the purpose of financing in accordance with the above-mentioned distribution quota in actual distributions and potentially remaining deemed distributions.

The elements in the results which are used for refinancing the net current assets and for investments as well as repayment of debt are accordingly not available to the shareholders.

However, the free elements of the results which are above the minimum cash on hand are attributed to the shareholders as deemed reinvestments and increase the value. This is carried out for technical purposes of the valuation by using additional retained earnings which are deemed attributed to the shareholders as increasing the value.

The Valuation Expert divided the net income of STADA which can be distributed into dividends and retained earnings with deemed attribution in the described ratio. The dividends result from the described planned distributions. Dividends must generally be reduced by the final tax on investment income in a total amount of 26.375 %.

When calculating the personal taxes for the retained earnings with deemed attribution, the Valuation Expert uses one-half the nominal tax rate in accordance with a recommendation in professional writings[187] and general valuation practice.

The recommendation in professional writings to apply one-half the final tax on investment income for capital gains was made in the summer of 2008 and, thus, at a time when the effects of the subsequent crisis in the financial markets were at most only starting to become apparent and the base interest rate had a much higher level. Furthermore, this recommendation assumes by way of typification an average company with an average risk level and distribution quota.

The return on the stock price of approximately 5°% resulting on average on this basis and when referring to the applicable tax system, this recommendation corresponds to a holding period of approximately 40 years which appears to be long. Thus, this typified approach benefits the outside shareholders and, therefore, does not give any reason for an objection in the present valuation.

[187] See, Wagner/Saur/Willershausen, The Application of the New Change in the Business Valuation Standards of the IDW S 1 2008 (*Zur Anwendung der Neuerungen der Unternehmensbewertungsgrundsätze des IDW S 1 i.d.F. 2008*) in Praxis, WPg 2008, pp. 731 et seq.

When determining the amounts which are deemed to be attributed to the shareholders by way of retained earnings, the Valuation Expert also took into account the fact that the growth of the results of the business applied starting in the transition year (2023) as well as in the terminal value are consistent with the corresponding growth in the balance sheet when there is a stable situation with regard to the relations within the balance sheet.

In order to finance the sustained growth of operations, the expert accordingly correctly applied an additional retention of earnings and took into account the taking out of additional debt in order to maintain the sustained debt ratio. The partial amount of retained earnings from the resulting balance (Variation 1: € 18.0 m)[188] cannot be included in the contribution to value from direct attribution. This approach has also been confirmed by the courts.[189]

We consider the approach chosen by ValueTrust when valuing STADA to be appropriate and reasonable in light of the distribution policy and the related taxation due to the described reasons.

Result of the audit

The net income for the shareholders of STADA has been properly derived from the integrated planning and taking into account the personal taxes.

5. Capitalization interest rate

The business value is determined on the basis of exclusive financial goals by the present value of the net income for the owners of the business linked with the ownership of the business. In order to derive the present value of the surpluses, a capitalization interest rate is used which represent the return on an alternative investment which is equivalent to an investment in the company which is the subject of the valuation.

This return can generally be broken down into a base interest rate and a risk premium demanded by the shareholders for assuming the entrepreneurial risk. When determining the base interest rate and the risk premium, the influences from taxes must be taken into account. In order to determine the effects of growth in the form of continuously growing financial surpluses after the end of the detailed planning phase, the capitalization interest rate is reduced by a growth rate.

a) Base interest rate

When determining the base interest rate, it is necessary to consider that the investment in the business which is the subject of the valuation must be prepared with a risk-free alternative investment that has an equivalent term. To the extent a business having a perpetual life is valued, the base interest rate must be the applicable return on investment as of the valuation date from a perpetual risk-free investment in the capital market which is also perpetual.

[188] Variation 2: € 14,3 m.
[189] See, e.g.. OLG Frankfurt am Main, order dated 24 November 2011, 21 W 7/11, ZIP 2012, pp. 124 et seq.; OLG Stuttgart, order dated 14 September 2011, 20 W 7/08, AG 2012, pp. 135 et seq.

There are no bonds without risk nor any with a perpetual term in the German capital market. Thus, the base interest rate cannot be directly observed in the capital market. Therefore, the predominant view is that in order to determine the interest rate for risk-free investments, the interest rate for long-term bonds issued by the government can be used as a reference as a virtually risk-free investment of the capital market.

Since German government bonds with a perpetual term constituting an alternative investment in terms of timing are not listed in the German capital market, a level of returns must be estimated for a perpetual term.

IDW S 1 specifically recommends deriving the base interest rate from the current interest yield curves.[190] The FAUB specified this recommendation in the notes for determining the base interest rate on the basis of market data using interest yield curves that appeared in the IDW-FN.[191]

Interest yield curves can be derived or estimated in various manners. According to the recommendations of the FAUB, reference should be made uniformly to the database of the German Federal Bank (*Deutsche Bundesbank*) or to the methodologically comparable data of the European Central Bank for reasons of having an objective value.

The interest yield curve is estimated by the Deutsche Bundesbank since 1997 by using the so-called Svensson method on the basis of daily trading on the exchange. This involves the direct estimate of the interest rates of zero coupon bonds on the basis of observed returns on investment for German federal government bonds, German federal government obligations and German federal government treasury certificates having remaining terms of up to 30 years. In order to estimate interest rates of zero coupon bonds that go beyond 30 years, the FAUB is of the opinion that normally the determined interest rate of zero coupon bonds having a reaming term of 30 years can be applied as a sustained value for the estimate in light of the background of the exponential function for remaining terms developed by the *Deutsche Bundesbank* as well as on the basis of general uncertainties in a forecast.

When using an interest yield curve, the earnings to be discounted must generally be reduced for each year with the relevant interest rate having the equivalent term. Due to reasons of practicality, normally a uniform base interest rate for the entire time period is calculated using the interest yield curve. Depending on the length of the planning period and the assumed rate of growth, a present value equivalent, uniform interest rate is calculated on the basis of the interest yield curve mathematically, depending on the length of the planning period and the assumed growth rate, for the then subsequent terminal value phase.

The FAUB further suggests not using just the zero bond returns estimated as of the valuation date in order to smooth out short-term fluctuations in the market as well as potential errors in the estimate, especially in the long-term returns on investment which are typical for business valuations and instead to refer to the average amounts. This period-specific development of an average is supposed to be

[190] See, IDW S 1, no. 117.
[191] See, IDW-FN 2005, pp. 555 et seq., IDW-FN 2008, pp. 490 et seq. and IDW-FN 2013, pp. 363 et seq.

derived from the returns on investment estimated for the three months preceding the valuation date.[192] Rounding up as well as rounding down the base interest rate to the nearest quarter percentage point is common in valuation practice[193] and recognized in the case law.[194]

The proposals of the FAUB about referring to average amounts in order to reduce complexity and smooth out short-term fluctuations in the market as well as potential mistakes in the estimate as well as the practice to date with regard to rounding to quarter percentage points is criticized by individual voices in the professional writings.

We consider the described approach to be appropriate, anyway, due to the stated reasons, and we also point out that in light of the uncertainties involved with forecasting future results and the necessary rounding when deriving the market risk premium presents an image of exactness in a base interest rate to the level of many decimal points which generally cannot be realized in enterprise valuations.

The setting of the base interest rate in the case law on the basis of the interest yield curve of the *Deutsche Bundesbank* is considered to be appropriate in accordance with the interests of the parties because the basis of the hypothetical interest rates for zero bonds takes into account a necessary objectification.[195]

The Valuation Expert determined a uniform base interest rate before personal income taxes of 1.25 %, rounded to the quarter percentage point. This interest rate is based on an estimate using the future average level of interest in interest yield data of the *Deutsche Bundesbank* for the period 9 September to 8 December 2017.

In order to convert the interest rates for the specific terms into a uniform base interest rate apply to all periods, for the purpose of simplification and describing the rates, the Valuation Expert applied a typified stream of payments that grows annually at 1.0 %.

We have verified the calculations by the Valuation Expert to determine the set base interest rate. Our own additional calculations[196] show that the value of the base without rounding in all variations is greater than 1.25 %. Thus, rounding down in the present valuation has the tendency to increase value based on today's knowledge.

When examining whether the cash compensation at the time of the GM on 2 February 2018 corresponds at least to the proportionate business value and whether the guaranteed dividend payment derived from the offered cash compensation is adequate, it is necessary to take into account that the

192 Approving the use of an average for many, e.g. most recently OLG Düsseldorf, order dated 6 June 2016, I-26 W 4/12 [AktE], AG 2017, pp. 487 et seq., OLG Frankfurt am Main, order dated 20 July 2016, 21 W 21/14, http://www.lareda.hessenrecht.hessen.de/lexsoft/default/hessenrecht_lareda.html#docid:7847889, most recently accessed on 22 November 2017.

193 The current recommendation of the FAUB makes the exactness for rounding dependent on the interest level (see Q&A to IDW S 1 2008, status: 4 July 2016, IDW Life 2016, pp. 732 et seq.). In light of the continuing low interest environment, the FAUB recommends to round to only tenth percentage points in the case of a base interest rate derived from the interest yield data before personal taxes of less than 1.0 %.

194 See, e.g.. OLG Saarbrücken, order dated 11 June 2014, 1 W 18/13, ZIP 2014, pp. 1784 et seq.

195 See in the recent case law e.g. orders of the OLG Düsseldorf dated 12 November 2015, I-26 W 9/14, AG 2016, pp. 331 et seq.; OLG Munich dated 5 May 2015, 31 Wx 366/13, ZIP 2015, pp. 1166 et seq.; OLG Frankfurt am Main dated 26 January 2015, 21 W 26/13, http://www.lareda.hessenrecht.hessen.de/lexsoft/default/hessenrecht_lareda.html#docid: 7305235, most recently accessed on 22 November 2017.

196 Also using the specific series of numbers in the applied net income when applying a sustained growth rate of 1.25 % or 1.0 %, the data were also used for the three month period ending as of 20 December 2017.

base interest rate, according to the method recommended by the FAUB, would generally have to be determined by taking into account the three then most recent months in the past. A change in the business value as well as a change in compensation of guaranteed dividend necessarily cannot be linked to any change in the base interest rate because effects on the other valuation parameters would also have to be examined in the same manner.

The applied base interest rate before taxes of 1.25 % can be converted into a base interest rate after personal income taxes of 0.92 % by applying the final tax on investment income (total of 26,375 %) to the interest.

Result of the audit

We consider the applied base interest rate at the personal income taxes of 0.92 % to be reasonable and supported.

b) Risk premium

ba) Determination of the risk

The investment in a business involves risks from the point of view of the investor which are higher than in the case of acquisition of creditor securities issued by the government. In order to establish the risk equivalency between the alternatives for the decision, the uncertainty of the future financial surpluses generally cannot be made as a deduction from the amount of the financial surpluses or as a surcharge on the capitalization interest rate for purposes of the valuation.

The nationally as well as internationally active risk premium method has the benefit that it can be based on empirically observable conduct. Regardless of the theoretically assumed form and nature of a risk benefits function, the risk premium method can be used to determine a market-oriented approach when determining the base premiums. The risk premium method corresponds to the IDW S 1 and is the common approach in practice.

When determining the risk premium, reference must generally be made to the risk preference of the shareholder. In the case of a large number of shareholders, however, it is not possible to collect their individual willingness to take risk. Therefore, it is common practice in determining objectified business values to refer to capital market price building models for determining the risk premium and to derive the risk premium directly from the capital market. This assumption makes it possible to reflect in the business model the risk assessment of a large number of shareholders using the ask-bid spread for the stock exchange price.

Since the business being valued is different compared to other businesses for which risk premiums can be observed in the market with regard to the specific risk structure, corresponding adjustments must be made to the risk premium. The businesses' specific risk premium is supposed to cover both the operational risk from the type of business activities as well as the capital structure risk which is influenced by the degree of leverage.

In order to determine the capitalization interest rate in a business valuation using theoretical models for the capital market, the IDW S°1 expressly refers to the Capital Asset Pricing Model[197] and the Tax CAPM, which is the standard CAPM supplemented with the effect of personal income taxes.

The risk premium under the CAPM and the Tax CAPM is determined by multiplying the average market price for the assumption of risk in the capital market (market risk premium) and the company-specific risk (beta factor). The market risks is the difference between the return on a group of listed companies[198] and the return from a virtually risk-free investment in the capital market (base interest rate). The company's individual risk is measured with the beta factor which results from the covariance in the fluctuation of returns on a security compared to the fluctuation in the returns in the market. The beta factor accordingly describes the sensitivity of the returns for a security compared to the development of the underlying market portfolio. If the risk of the company being valued in the specific situation corresponds to the risk of the referenced stock portfolio, the return of the stock portfolio is the same as the capitalization interest rate.

The application of the CAPM for purposes of determining the risk premium in the case of a business valuation is not without dispute in legal writings and the case law. There are some instances in the case law where the model using the CAPM is rejected by reference to numerous fundamental concerns. This rejection is supported, among other aspects, by the argument that the capital market supposedly offers no reliable information about the future extent of risk of a business because the capital market is not a complete system.

Despite all criticism the CAPM continues to be the preferred calculation model for determining the risk premium both on the part of the predominant view in business economic writings as well as in valuation practice.[199] This conclusion is also completely shared in the recent case law.[200]

The OLG Frankfurt am Main also confirms that the CAPM is superior compared to a free estimate of the risk premium due to the higher transparency of the CAPM, and the OLG emphasizes that the CAPM currently represents the most important model for determining the costs of capital to properly reflect risk.[201]

Result of the audit

Based on the above reasons, we also consider it appropriate in this specific instance of a valuation to determine the risk premium by reference to the CAPM and the Tax CAPM.

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197 "CAPM".
198 Normally combined in a stock exchange index.
199 Wagner/Jonas/Ballwieser/Tschöpel, WPg 2004, pp. 889 et seq.
200 See, e.g. OLG Frankfurt am Main, order dated 5 February 2016, 21 W 69/14, AG 2016, pp. 588 et seq.; OLG Düsseldorf, order dated 12 November 2015, I-26 W 9/14, ibid; OLG Karlsruhe, order dated 23 July 2015, 12a W 4/15, AG 2016, pp. 220 et seq.; OLG Munich, order dated 18 February 2014, 31 Wx 211/13, http://www.gesetze-bayern.de/Content/Document/Y-300-Z-BECKRS-B-2014-N-03894?hl=true&AspxAutoDetectCookieSupport=1, most recently accessed on 22 November 2017
201 See, order dated 2. May 2011, 21 W 3/11, http://www.lareda.hessenrecht.hessen.de/lexsoft/default/hessenrecht_lareda.html#docid:4507881, most recently accessed on 22 November 2017.

bb) Market risk premium

The market risk premium can either be determined directly on a future oriented basis or on the basis of analyses of the historic capital market. Although the direct determination oriented on the future[202] conceptually has the benefit of being based on expected payments and current prices, this has not yet been fully accepted in practice due to some conceptual disadvantages.[203] The recommendations of the IDW on the market risk premium accordingly continue to be based on the historically observed returns as supplemented, however, in the meantime, by further considerations which also include the development of the implied costs of capital.

Analyses of the historic capital markets accordingly continue to be the focus for considerations about deriving the future market risk premium. It is disputed in business theory and valuation practice which studies in the capital market correctly reflect the observable market risk premium. The result is that numerous published capital markets studies at least clearly show in the majority that investments in stocks in the past have mostly generated higher returns on investment than investments in virtually risk-free government bonds.

When evaluating capital market studies, it must be noted that the results of international studies cannot be simply applied to the German circumstances. In the first place, the studies do not take into account the particular aspects of the German tax system. Secondly, the German capital market is not fully comparable especially with the Anglo-Saxon capital markets because the German market has a relatively lower number of listed companies.

With regard to the available studies of the German capital market, an assessment and, thus, a reference for determining the expected future market risk premium in the CAPM is quite difficult because the studies do not use a uniform database when determining market risk premiums observed in the past. This is apparent in the present studies both with regard to the different reference periods and reference indices as well as the lack of uniform inclusion of inflation and income taxes as well as the method in which the average of individual historic market premiums is drawn to reach a representative overall value by arithmetic or geometric calculation. There is, thus, only limited comparability among the studies of the German capital market.

The Working Group Business Valuation at the IDW[204] first issued a statement about the specific amount of the expected market risk premium in that groups 84th meeting on 10 December 2004.[205] The committee accordingly considered it appropriate in the case of business valuations with valuation dates after 31 December 2004, to use the market risk premium after personal income taxes in an amount of 5.0 % to 6.0 % unless there were particular aspects that stood in the way of this in the specific situation.

The recommendation of the AKU was especially based on the results of a capital markets study by Stehle. This study determined the market risk premium by an express and differentiated consideration

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202 E.g. by questioning experts or by models to estimate implied costs of equity.
203 See, Franken/Schulte in Fleischer/Hüttemann, Legal Handbook for Business Valuation (*Rechtshandbuch Unternehmensbewertung*), 2015, § 6 no. 45 et seq.
204 Predecessor of the FAUB, "AKU".
205 See, IDW-FN 2005, pp. 70 et seq.

of personal taxes.[206] It is especially considered by the AKU and the FAUB to be particularly appropriate to estimate future market risk premiums for purposes of a business valuation.

Risk premiums after personal income taxes of 6.66 % (arithmetic mean, CDAX[207]) and 3.83 % (geometric mean, CDAX) are calculated in this study for the chosen reference period (1955 to 2003) in the German capital market. Based on the market risk premium derived in this manner with the arithmetic mean after taxes of 6.66 % and taking into account a reduction in the amount of 1.0 to 1.5 percentage points, Stehle considers applying 5.5 % for the future market risk premium to be reasonable for purposes of business valuation. He concludes in favor of using a market risk premium after personal taxes of 5.5 % for purposes of a business valuation.

The approach chosen by Stehle to determine the future market risk premiums is especially discussed in part today still controversially especially due to the reference period chosen by him and his determination about using the arithmetic mean as the average.

With regard to the issue whether an average calculated by arithmetic or geometric method correctly reflects the market risk premium in the past, to our knowledge there has not yet been a conclusive opinion developed in business economics research. A number of empirical studies have been published in the valuation writings in the United States of America, which permit the conclusion that the actual market risk premium lies between the arithmetic and the geometric mean and not at one of the extreme values.

The OLG Frankfurt am Main also finds that it makes sense in the context of an estimate to refer to a value between the geometric mean and the arithmetic mean in accordance with the recommendation of the IDW, in order to determine a realistic market risk premium so long as this issue has not been clarified in the academic world.[208]

The OLG Karlsruhe also concludes that "a clear determination of the market risk premium" under the current status of economics is supposedly not possible. The court states that there are several reasonable methods in addition to the arithmetic mean.[209]

When calculating an average of the arithmetic and geometric mean values, a value of 5.25 % for the CDAX results on the basis of the market risk premiums identified by Stehle, taking into account typified income taxes.

If further studies with very long observation periods are also considered and if the average of the arithmetic and geometrics means of the annual returns on investment are considered to be a pragmatic approach for estimating the market risk premium, the range recommended by the IDW for valuation dates prior to 1 January 2009 (5.0 % to 6.0 % after personal taxes) appears to be reasonable also from the present point of view as a starting point for further considerations.

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206 See, Stehle, WPg 2004, pp. 921 et seq.
207 Composite DAX (broadest German market stock index).
208 See, order dated 5 March 2012, 21 W 11/11, AG 2012, pp. 417 et seq., and order dated 24 November 2011, 21 W 7/11, ZIP 2012, pp. 126 et seq.
209 See, order dated 23 July 2015, 12a W 4/15, ibid.

The continuation of the empirical study by Stehle carried out by Ballwieser, Kruschwitz and Löffler up to the year 2006[210] resulted for the CDAX in an increase in the estimated arithmetic determined after-tax market risk premium to 7.22 %, and the geometrically determined after-tax market risk premium was at 4.56 %, so that the average is 5.89 %.

When determining the future market risk premium, the empirically observed, historic market risk premiums, however, can only constitute the starting point for further considerations.

In order to take into account the principle of equivalency of the forward-looking aspect in enterprise valuation, Stehle proposes in this context a reduction to the historic values measured for the market risk premium. He supports this with better possibilities for investors to delineate risk on the basis of diversification and any future lower risk in fluctuations in the price. The reduction is quantified by Stehle to be 1.0 to 1.5 percentage points without any further explanation.

The approach with such a reduction is discussed controversially in the writings. Even the opinion that an opposite development is to be expected is sometimes represented. According to the knowledge we have, a majority opinion has not yet been developed.

The FAUB concluded that the application of a future market risk premium of 5.0 % to 6.0 % after personal taxes is appropriate for valuation dates prior to 1 January 2009. Despite the described uncertainty about the determination of the market risk premiums observed in the past and the resulting, derived future market risk premium, we are of the opinion that there is no reason to reject this.

The recommendations by the IDW about the amount of the market risk premium for the period between 1 January 2005 and the introduction of the final tax on investment income (*Abgeltungssteuer*) has also been approved by the case law of the higher courts.[211]

After a market risk premium after personal taxes of 5.0 % to 6.0 % has been established for valuation dates after 1 January 2005, the taxation of capital investments in Germany was fundamentally reformed in the corporate tax reform 2008 effective as of the end of the year 2008/beginning of the year 2009. This change in the system could not remain without influence on the future expected market risk premium.

The assumption could subsequently no longer be made (for purposes of simplification and with the effect of increasing the business value) that capital gains would remain tax exempt. However, it must also be considered since that time that the holding period of shares has an influence on the effective tax burden, because a shift in the tax burden into the future has the result of present value benefits for the investors in shares. The amount of this present value benefit depends, among other aspects, on the period for which the shares are held.

210 See, Ballwieser/Kruschwitz/Löffler, WPg 2007, pp. 768 et seq.
211 See, e.g. OLG Munich, order dated 26 July 2012, 31 Wx 250/11, BB 2012, pp. 2062 et seq.; OLG Düsseldorf, order dated 4 July 2012, I-26 W 8/10, NZG 2012; OLG Frankfurt am Main, order dated 5 March 2012, 21 W 11/11, ibid.; OLG Stuttgart, order dated 17 October 2011, 20 W 7/11, ZIP 2012, pp. 133.

In order to exactly be able to calculate the influence of the corporate tax reform 2008 on the amount of the market risk premium, an average tax rate for capital gains, taking into account the final tax on investment income, would have to be known. In order to determine this tax rate for capital gains, especially information about the average time for which stocks are held in the securities accounts of private investors and about the development of the prices for securities during the holding period would be required. So long as this information is not available due to the relatively short period of time since the introduction of the final tax on investment income, the actual effects on the amount of the market risk premium must still be estimated.

The FAUB expressed the opinion at the time that the market risk premium after personal taxes could be slightly reduced by the effects of the tax reform.[212]

The demand of the shareholders for returns after taxes is stated to be merely the expression of risk aversion. The demand for returns (after taxes) accordingly depends on the tax system. If additional personal taxes on an investment in the capital market accrue as a result of the uniform final tax on investment income for future capital gains, higher demands for returns will be placed on the business as an offset. If higher returns on investment cannot be implemented in the capital market, including because of foreign shareholders who generally are not subject to any increase in the tax burden as a result of the corporate tax reform, the after-tax returns are reduced for the typified domestic shareholder. A link in the effects by way of a model was empirically confirmed by a study of the tax reform 2003 in the USA.

The FAUB had previously recommended a range of the market risk premium after personal taxes of 4.0°% to 5.0 % on the basis of a simulated calculation for valuation dates after the introduction of the taxation of capital gains as of 1 January 2009. These ranges correspond to a return on investment for the participants in the market of around 8 % after personal taxes at the base interest level that existed at that time.

The case law of the higher courts has also mostly acknowledged the recommendations of the IDW about the amount of the market risk premium after introduction of the final tax on investment income.[213]

In light of the returns on German government bonds that have substantially fallen – and which are in part even negative in the case of short terms – as a consequence of the crisis in the financial and capital markets and the resulting lower real interest on (virtually) risk-free bonds, the valuation practice has discussed since 2011 the stability of capitalization interest rates for purposes of business valuation.

The FAUB recommended with regard to this question on 10 January 2012 – subject to the development of additional information and recommendations on the basis of further studies – initially to examine whether the increased uncertainty in the capital market and the increased risk aversion can be taken into account by applying the market risk premium at the upper end of the previously mentioned range.

[212] See, Report on Results - Online of the 95th meeting of the FAUB on 29 November 2007.
[213] See, representing many: OLG Munich, order dated 18 February 2014, 31 Wx 211/13, AG 2014, pp. 453 et seq.; OLG Stuttgart, order dated 15 October 2013, 20 W 3/13, ZIP 2013, pp. 2203 et seq.; OLG Frankfurt am Main, order dated 2 May 2011, 21 W 3/11, ibid.

Some participants in the discussion already stated at the working convention of the IDW on January 2012 that this recommendation of the FAUB is already possibly inadequate.

In the professional articles published on the basis of the further discussion as well as the development of the interest rates, the most recent recommendation by the FAUB (recently confirmed on 24 April 2017) is that it is appropriate to currently orient the assessment of the market risk premiums on a range of 5.5 % to 7.0 % (before personal taxes) or 5.0 % to 6.0 % (after personal taxes).

The Valuation Expert made its own considerations with regard to the amount of the market risk premium before and after personal taxes. Based on observed returns in the market over a longer period of time and implied returns in the market starting in the second half of the year 2011, the Valuation Expert concludes that the future market risk premium before personal taxes lies in a range between 7.0 % and 7.5 %. Based on this, the Valuation Expert considers in the present case the application of a market risk premium before personal taxes of 7.0 % and after personal of 6.0 % to be reasonable. Therefore, the Expert uses a market risk premium after personal taxes 6.0 % for the calculations in Variation 1. Since it is standard market practice, according to the findings of the Valuation Expert, to refer to the middle of the range recommended by the IDW when determining compensation benefits under stock corporations' law, the Valuation Expert based its calculations in Variation 2 on a market risk premium after personal taxes of 5.5 %.[214]

We have verified the calculations used by the Valuation Expert as the basis for the market risk premium applied in Variation 1. We are of the opinion that the results justify, in the present case, considering the upper part of the range recommended by the IDW to be determinative. In light of the questions discussed above which cannot finally be clarified, however, a market risk premium after personal taxes of 5.0 % could also be supported.

Therefore, we consider the application of a market risk premium of 5.5 %, i.e. in the middle of the range recommended by the IDW, to be just as reasonable as applying a market risk premium of 6.0 % which is at the upper end of the range recommended by the IDW.

A market risk premium after personal taxes in the amount of 5.5 % for valuation dates after the financial market crisis is increasingly recognized also in the more recent case law.[215]

Result of the audit

Due to the described reasons, the approach using a market risk premium before personal taxes of 6.0 % (Variation 1) is just as reasonable as the approach using a market risk premium after personal taxes of 5.5 % (Variation 2).

214 Due to reasons of consistency, the Valuation Expert applied the sustained growth rate in this variation at 1.0 %.

215 See, including OLG Hamburg, order dated 18. September 2015, 13 w 44/14, (not published); LG Hamburg, order dated 26. September 2014, 403 HKO 19/13, BeckRS 2014, p. 20493; OLG Frankfurt am Main, order dated 26 January 2017, 21 W 75/15, DB 2017, p. 713.

bc) Beta factor

The estimated risk premium for the total market for portfolio (market risk premium) must be adjusted under the CAPM with regard to the special risk structure of the business which is the subject of the valuation. The relationship between the general market risk and the individual, business and industry specific risk is expressed in the so-called beta factor.

Just as is the case with the market risk premium, the beta factor can also be either directly determined in a future-oriented manner or it can be determined on the basis of historic capital market data.[216] The future oriented determination of the beta factor has so far not been accepted due to conceptual disadvantages, just as the future oriented determination of the market risk premium has not been accepted.[217].

When determining beta factors on the basis of historic capital market data, it is necessary to initially determine historic beta factors, in order to arrive at an estimate of the future risk situation on this basis.

It must be observed in valuation practice that significantly different beta factors are derived for virtually identical periods of time. Simply the selection of the parameters can have substantial effects on the amount of the measured beta factor in the past.

The observed beta factor in the past depends especially on the index chosen for comparison, the length of the period for the estimate, the periodicity of the underlying indices as well as the determination of the beginning and end of the reference period.

bca) Comparison with the market portfolio

Since the beta factor expresses the sensitivity of the action of the stock price to changes in value of the market portfolio, the question must first be clarified about how the market portfolio is compiled.

From a theoretical perspective with regard to the modelling, the market portfolio consists of all worldwide existing risk-bearing possibilities for investment and is not just limited to stocks. This theoretically correct, worldwide market portfolio cannot be reviewed for practical reasons.

However, there are also international, partially worldwide indices established at least for stock markets. Therefore, sometimes international, but sometimes also as broad a national index of the market as possible are used as a standard in valuation practice. The latter approach can avoid distortions resulting from currency exchange rates. Therefore, it can also be appropriate to use an as broad as possible national index as a standard for the specific risk of the business. We consider both approaches to be generally permissible.

The Valuation Expert referred to broad market national indices with a high market coverage in order to derive the beta factors. We have conducted alternative calculations using the worldwide index "MSCI World". We did not find any indications that the approach chosen by the Valuation Expert has a one-

[216] In addition, also on the basis of fundamental corporate key numbers. This approach, however, does not follow the explanatory context of the CAPM; see Franken/Schulte in Fleischer/Hüttemann, cited above, § 6 no. 75.
[217] See, on this point, section D.IV.5.bb), pp. 72 et seq.

sided effect to the detriment of the outside shareholders. The approach by the Valuation Expert accordingly gives no cause for objection in the present case.

bcb) Observation period and periodicity of the comparison

Betas from the past can be obtained from providers of financial market data normally for different estimation periods and intervals.[218]

A certain number of data points is required for the regression analysis, in order to be able to arrive statistically significant results. The statistically relevant data volume is stated to be 30 to 100 data points.[219] Beta factors in valuation practice are, therefore, usually at least collected for a weekly basis for a two-year period of time (104 data points) or on a monthly basis for a five-year period of time (60 data points), in order to have sufficient data points.

A daily measurement of returns would make it possible to have a higher volume for the sampling, but this is chosen only rarely in valuation practice because the empirical features have a tendency to be less favorable, and the betas resulting on this basis fluctuate more strongly than in the case of measuring in longer term intervals.

In the professional writings, especially also the so-called "intervalling effect" is mentioned as a reason not to use a daily measurement of returns on investment. In the case of low liquidity in trading of a stock, the prices only react to new information with a delay and, thus, are not synchronous to the chosen reference index.

Therefore, usually weekly betas are collected in valuation practice. The average price in the trading week is normally not used and instead the closing price on the last trading day of the week is used as the basis.

Monthly returns, however, have more favorable statistical features, so that distortions of the beta factor are also avoided with increasing length of the intervals for the returns. Therefore, beta factors are often collected on a monthly basis for a period of five years in valuation practice. The closing price on the last trading day of the month is usually the basis.

An argument against using the monthly betas, however, is that (very) long periods of time must be observed in order to achieve a sufficient number of beta points, so that the comparability can be strongly limited due to structural breaks. On the other hand, a longer observation period can be beneficial by leveling the effects of distortions in the market, such as can result from the crisis in the financial markets. A five-year period also generally corresponds to the length of an economic cycle better than a shorter time period.

The Valuation Expert refers in the present valuation to the weekly beta factors over a two-year period from 9 December 2015 to 8 December 2017. As a result, the Valuation Expert is of the opinion that also the most recent developments in the capital markets would be taken into account and changes in the

[218] Daily, weekly, monthly.
[219] See, Schneeweiß, Econometrics (*Ökonometrie*), 1990, p. 6.

business models of the comparable companies that are more than two years in the past are not reflected in the determination of the beta factor. The Valuation Expert also shows the derivation of the beta factor over a five-year period from 9 December 2012 to 8 December 2017 on the basis of monthly data.

We have also conducted our own analyses in which we also varied the observation periods and periodicities. This did not result in any indications that the approach chosen by the Valuation Expert has a one-sided effect to the detriment of the outside shareholders. The approach by the Valuation Expert accordingly does not give any reason for objection in the present case.

bcc) <u>Reliability of historic betas</u>

The reliability of the beta factor can be evaluated on the basis of statistical measurement of the quality (degree of certainty, t-Test) and liquidity numbers ("free float", "bid-ask spread").

The referenced measurements for statistical quality are used in valuation practice to measure the informative power of observed beta factors (degree of certainty) and to confirm or reject the determined beta factors as a yes/no decision (t-Test).

The Valuation Expert checked the reliability of the beta factors exclusively on the basis of the t-Test. To the extent the t-Test indicated a lack of statistical significance for the respectively observed reference time period and index, the Valuation Expert did not take into account the respective beta factor.

In the professional writings, the informative power of this statistical measurement of quality has increasingly been criticized and it has been pointed out in individual situations that the liquidity in the trading of a stock is an appropriate criterion for evaluating the informative power of beta factors.

The prerequisite for measuring an informative beta factor is stated accordingly to be above all that the relevant information is processed in a timely manner compared to the stock price, which is normally assured in the case of stocks that have high liquidity. In the case of stocks with low liquidity, beta factors are normally identified which underestimate the actual systematic risk.

Therefore, valuation practice is increasingly - exclusively or as a supplement to the described measurements of quality - referring to the liquidity of a stock as a further criterion for evaluating the informative value of beta factors. This usually involves, among others, an analysis of the bid-ask spread.

A high bid-ask spread is considered to be an indicator for the lack of liquidity of a stock due to the related high transaction costs for investors. These transaction costs can have the consequence of a systematic distortion of the determined beta factor so that it has almost zero value, due to the following described effects.

As a general rule, a low trading volume corresponds to higher transactions costs. The "bid price" of a share generally is below its "ask price". An investor receives less when selling the share than the investor would have to pay for a simultaneous purchase of the share. The closer the bid and ask prices to each other, the more simple and reliable can also large orders be executed at or near the last traded price. This is referred to as market depth.

Thus, the bid-ask spread in the case of shares with stocks with low trading volume is generally well above the bid-ask spread of very liquid stocks. Purchasers and sellers of a stock with low trading volume must, therefore, accept a substantially higher deduction on their growth return than purchasers or sellers of a stock with a high trading volume. As a consequence, a rational investor will not immediately react to every new piece of information in the capital market because the investor would have to accept in each transaction substantial reductions of returns resulting from the higher bid-ask spread.

Therefore, we have additionally examined the liquidity of the shares of the peer group companies. We consider on this basis the examination of the reliability of beta factors to be appropriate and reasonable.

bcd) Suitability of historic beta factors for forecasts

The observed historic beta factors do not necessarily also have to reflect the risk involved in the valuation subject in the future. In the course of the considerations by the expert, a future beta factor must be estimated taking into account the observed historic beta factors. The beta factors determined in the past for different periods accordingly have only an indicative function.

In addition to the discussed questions of periodicity of measurement and the quality of the resulting data as well as the market for portfolio used for a comparison, it is often a decisive aspect in the practical determination of a beta factor whether the "raw beta" or the "adjusted beta" is referred to.

The raw beta is considered to be the historic beta and can be directly calculated from the observed data in the capital market. In addition, an adjusted beta can be calculated. The latter consists in the amount of one third of the market portfolio data (according to the definition = 1.0) and two thirds of the raw beta.

This weighting is supposed to compensate for errors which can result from the fact that high historic beta factors lead to overestimating and low historic beta factors lead to underestimating the "true" beta factors. This approach has its origin in the autoregressive adaptive behavior developed by Blume with which distortions of historic data are supposed to be corrected.[220]

A few further studies conclude in this regard that adaptation behavior such as the Blume estimator result in better forecast for beta factors than "naïve" forecasts.[221]

Although various ranges of potential adaption factors are stated, the above referenced relationship of one third to two thirds has proven itself in valuation practice and has also been accepted, to the extent such adjustments are made.

[220] See, Blume, The Journal of Finance, March 1971, p. 8.
[221] See, e.g. Schmid/Wolf, Cost of Capital Estimation with Application to Workers Compensation Ratemaking, 2009; Gray/Hall/Bowman/Brailsford/Faff/Officer, The performance of alternative techniques for estimating equity betas of Australian firms, 2005; Zimmermann, Estimating and Forecasting Beta Values (*Schätzung and Prognose von Betawerten*), 1997, pp. 251 et seq.

The Valuation Expert in the present case did not make any adjustment for the beta factors identified for the past and instead chose to apply the raw beta.

According to our knowledge, a conclusive majority view concerning the use of the raw beta or the adjusted beta has not yet established itself in the professional writings or the case law. Therefore, both methods are applied in valuation practice.

We have statistically analyzed, with regard to this question, a large number of structural measures with compensation benefits under corporate law. The result shows that neither one method or the other method is dominant and that there is also no trend for using one of the two methods.

In light of the above discussion, there is no reason to object to the valuation of beta based on estimating the future business risk by reference to the raw beta, particularly since this approach in the present case does not result in a reduction of value.

bce) <u>Consideration of the capital structure risk</u>

When analyzing the values determined in this manner, it must also be noted that the beta factors collected from the capital market overall reflect both the operational risk of the respective business as well as its individual capital structure risk.

According to the predominant view, the assumption must be made that a higher degree of levering involves a higher financial risk for the equity and that this, therefore, results in higher risk premiums (for the equity). In order to establish comparability of differently levered other companies (the "peer group") with the valuation subject,[222] therefore, the collected beta factors are normally "unlevered" for the respective capital structure risk and subsequently adjusted ("relevered") for the capital structure risk of the valuation subject. If appropriate, the beta factor must accordingly be adjusted over the course of time to correspond to the capital structure.

The assumption is often made in practice in the calculation of the valuation and taking into account the so-called beta factor, that the providers of debt capital assume a part of the operational risk and that there demand for a return on investment accordingly is increased by a risk premium. In a manner which corresponds to the assumption of risk of the debt providers, the residual risk assumed by the equity providers is decreased and the risk premium demanded by the providers of equity decreases.

The described approach was used in the present case when converting the beta factors.

The Valuation Expert used the respective credit spread derived from ratings or implied costs of debt capital, adjusted for the so-called non-systematic risks, in order to calculate the debt beta.

As a general rule, we consider the use of the debt beta approach and the assumptions made by the valuation expert to be appropriate; although the adjustment of the credit spread is not absolutely necessary. However, this approach does not have an effect to the detriment of the outside shareholders, and, thus, does not provide any reason for objection.

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[222] Or the levered valuation subject which over the course of time might be different.

bcf) Beta factor of the Company versus beta factors of comparable companies

In the case of companies whose shares are traded on the stock exchange, it is generally possible to directly derive beta factors from stock exchange prices. Reference is made for this purpose to the historic developments of returns.

These developments of returns, however, are influenced in manner situations by specific events or factors and, thus, do not properly reflect the business risk. A decoupling from the events in the market resulting from takeover offers, speculation or a tight market represent such distortions in the development of returns on stocks.

The beta factors that can be observed in the capital market for STADA as a listed company for the past are available. The Valuation Expert accordingly analyzed the trading in the shares of STADA.

The assumption can be made, in the view of the Valuation Expert, that the development of the stock exchange price of the STADA stock was influenced at the latest starting in December 2016 by takeover rumors and the subsequent actual takeover offers and was, thus, less influenced by the actual economic development of the Company. This argument makes sense, in our view.[223]

When historic beta factors of the valuation subject cannot be used as a reference for determining the future beta factor, as is the situation in the present case, it is necessary under the CAPM to identify companies with a comparable risk for which relevant beta factors can be determined.

Since other companies are not comparable in every respect, valuation practice tries in general to include multiple companies in the relevant industry in the analysis, in order to take into account by way of an average that each individual comparable company is not completely comparable with the valuation subject. This approach is also based on the idea that comparable companies and the valuation subject will continue to approximate each other in the future in their joined industry with regard to chances and risks.[224]

The OLG Düsseldorf[225] referred to a decision of the OLG Celle[226] and called the "reference group procedure" a "serious method" for determining the beta factor.

The Valuation Expert took into account when looking for comparable companies, on the one hand, the fact that the companies in the peer group must be generally comparable to the valuation subject with regard to chances and risks. Secondly, the Valuation Expert took into account that historic trading data must be available in sufficient volume and quality for the potential peer group companies.

The determination of the appropriate peer group companies by the Valuation Expert was made with a primary and secondary approach.

[223] See, also section D.IV.5.bcf), p. 79, and D.IV.7.c), p. 92.
[224] This is also sufficient in the view of the courts; see e.g. OLG Karlsruhe, order dated 1 April 2015, 12a W 7/15, AG 2015, pp. 549 et seq.
[225] See, order dated 27 May 2009, I-26 W 5/07, ZIP 2007, pp. 2029 et seq.
[226] See, order dated 19 April 2007, 9 W 53/06, AG 2007, pp. 865 et seq.

In the primary approach, the Valuation Expert identified 36 companies in the pharmaceutical industry on the basis of obtaining data from the information service provider S&P Global, which generate the major portion of their sales with generics and/or brand products, just as is the case with STADA. In the secondary approach, the Valuation Expert used market studies, reports by analysts as well as internal market analyses of STADA to identify 54 companies in the healthcare industry which also have a comparable risk profile. Overall, the Valuation Expert identified 90 comparable companies in this manner ("long list").

The documents forming the basis for the analysis as well as the criteria for including individual companies in the long list were not disclosed in detail to us. Based on our own inquiries of S&P Global and our own analysis of market studies, reports by analysts and the internal market analyses placed in the data room, we have not identified any further potential comparable company which reflects the risk profile in a similarly good or better manner than the companies in the long list developed by the Valuation Expert.

In a second step, the Valuation Expert transitioned the long list to a "short list" on the basis of a scoring model. Based on the approach comprehensively described by the Valuation Expert, the Valuation Expert determined the twelve remaining comparable companies described in the Valuation Report as the final peer group which reflects as best as possible the operational risk situation of STADA.

We were able to verify the approach by the Valuation Expert without finding any reason for objection. Namely, we consider especially the use of a scoring model and the specific criteria chosen by the Valuation Expert and their weighting to be appropriate.

The peer group in valuation practice and also in the present valuation contained companies headquartered in foreign countries. The argument is often made against selecting peer group companies with headquarters and/or a stock listing in foreign countries, contrary to the valuation subject, that they are supposedly not sufficiently comparable for this reason.

The risk situation, however, is in general not influenced by the headquarters or the location where they are listed and instead, among other aspects, by the geographic main focus of the business activity. This criterion was considered when selecting the comparable companies.

The case law also considers the chosen approach to be permissible with regard to the relationship to foreign countries.[227]

To summarize, we consider the Valuation Expert's approach for selecting the companies in the peer group to be reasonable in terms of the systematic approach and also with regard to the specific implementation. There is no reason to object to the determination of the peer group companies listed and described in the Valuation Report with regard to the results of the valuation.

[227] See, e.g. OLG Stuttgart, order dated 3 April 2012, 20 W 7/09, dated 17 October 2011, 20 W 7/11, and dated 4 May 2011, 20 W 11/08, ZIP 2011, pp. 1709 et seq.; OLG Frankfurt am Main, order dated 5 March 2012, 21 W 11/11, ibid.; OLG Celle, order dated 19 April 2007, 9 W 53/06, ZIP 2007, pp. 2025 et seq.

bcg) Determination and amount of the beta factor

The Valuation Expert derived, with the described methodology, levered two-year beta factors as of 8 December 2017 on the basis of raw betas by means of a weekly regression against a common broad market index and converted them into unlevered beta factors.

The Valuation Expert represents the determined individual values for the levered beta factors, the degree of leverage and the unlevered beta factors for each peer group company in a table and calculates on this basis the arithmetic average as well as the median. For purposes of information, the corresponding five-year beta factors are also represented on the basis of monthly measurements. In some case, the liquidity of the respective trading in the shares fort he observed reference period and index chosen by the Valuation Expert, however, does not have the desired level. In these situations, the beta factor was not included when calculating the average.

A range of unlevered beta factors from 0.28 to 1.02 results for the peer group. The arithmetic mean of the unlevered beta factors is 0.74, and the median is 0.77.

Based on the increase in the ROCE resulting in the plan and the, in the view of the Valuation Expert, ambitious planned accounts, the Valuation Expert also considers a beta factor of 0.8 to be supportable. After the discussions conducted in the course of the valuation and audit work, the Valuation Expert applied an unlevered beta factor of 0.75 to estimate the operational risk of STADA.[228]

The Valuation Expert adjusted the unlevered beta factor for determining the risk premium in the valuation of STADA with the discounted dividends method for the specific period to the changing capital structure to values which decrease from 0.95 to 0.92 (Variation 1) and from 0.94 to 0.91 (Variation 2).

We did not finally discuss with the Valuation Expert the remaining questions that had been mentioned when converting the unlevered beta factor of 0.75 to levered beta factors for specific periods because the approach taken by the Valuation Expert leads to a slight increase in the business value. The determination of the levered beta factors does not give any reason for objection.

Result of the audit

The beta factor resulting from measuring the trading in STADA shares on the stock exchange is not relevant. Upon evaluating the business model of STADA, we consider the beta factor chosen for the valuation of STADA on the basis of a comparison with other listed companies to be reasonable.

[228] The Valuation Expert analyzed and showed the unlevered and the levered costs of equity before personal taxes resulting on this basis in Variation 1 with the average unlevered and levered implied costs of equity of the peer group as well as the pharmaceutical and healthcare industry in the region of Germany, Austria and Switzerland for an observation period of six years. The Valuation Expert concludes that this analysis does not provide any indication that the costs of equity applied by the Valuation Expert might not be reasonable. Furthermore, the Valuation Expert also analyzed and showed the realized "total shareholder returns" of this comparable group as well as in the MSCI World Pharma, Biotech & Life Sciences for an observation period of 20 years. This analysis also does not indicate that the costs of equity applied by the Valuation Expert might be too high. We have also verified these analyses and consider the conclusion of the Valuation Expert drawn from these analyses to be verifiable.

c) <u>Growth rate</u>

The future growth of the financial surpluses of businesses result, on the one hand, from retained earnings and reinvesting them in the business and, on the other hand, organically from effects related to prices, volumes and structure.

The potential for growth in the detailed planning phase and in the convergence phase are contained in the continued business plan and, thus, in the financial surpluses, because the individual components are planned as nominal amounts. The application of a growth rate for this period is accordingly not necessary.

The positions in the balance sheet and the P&L and, thus, also the net revenues of the shareholders also continue to develop in the terminal value phase. This sustained growth can be reflected in the capitalization interest rate in terms of financial mathematics in general as the growth rate.

The retained amounts which are deemed to be directly attributed to the shareholders for technical purposes of the valuation in the terminal value phase already represent a major part of the future growth. This reflection of the growth resulting from retained earnings can also be made with an equivalent value by discounting the resulting generated additional distributions.

Subject to the prerequisite that STADA earns in a sustained manner the costs of capital, which reflect in the own risk and financing structure, the future growing distributions correspond directly to the contribution to value from increases in value resulting from retained earnings. Thus, the main portion of the future operational growth financed by retained earnings is already taken into account by the direct attribution of the contribution to value from increases in value.

The further potential for growth, e.g. additional growth effects over limited periods, the excess returns that can be generated for a limited period due to conditions in the market and industry or which are based on specific features and growth effects resulting from inflation must be taken into account in the growth rate in the described systematic approach taken for the valuation.

However, the specific inflation related effects on growth for the business are different from the overall economic indicators such as the general rate of inflation, which is measured by a change in the consumer price index, or the development of prices in the procurement markets. Business specific effects of growth resulting from inflation are accordingly determined for each business by the individual changes in prices that are made in the procurement markets, the capacity of the company to continuously generate gains in efficiency as well as the own capacity to implement price increases on the selling market.

Taking into account the current general economic data in the regions in which STADA is active as well as in light of the already intense market and competitive environment and the continuing expected pressure on prices in the healthcare systems, the Valuation Expert applied a growth rate of 1.25 % (Variation 1) for the financial years starting in 2023. [229]

We consider the described approach by the Valuation Expert to be reasonable. We consider the applied growth rate of 1.25 % to be appropriate, but not absolutely conclusive, according to statements by the chief financial officer that he already anticipates an average erosion of prices of 2°% annually and that this price pressure in the long term can only be partially offset by introduction of new products.

Empirical studies show that rates of growth resulting from inflation for specific businesses are on average below the target value for a long-term desired (consumption oriented) rate of inflation (close to 2.0 %) defined by the European Central Bank. Upon taking into account current mid-term expectations for inflation and the goal of the European Central Bank for inflation, future growth adjusted for retained earnings of 1.0 % can be derived.

To the extent that some of the professional writings argue that the (average) growth in profits of German companies must be applied at a much higher level on the basis of statistical analyses, these sources mostly fail to recognize the above-described connection between retained earnings and resulting increases in value.

When comparing the growth rate to be applied in a business valuation with the statistically determined growth in profits of companies, however, the observation is that companies in practice regularly retain earnings with which they make investments (for expansion). These investments, in turn, increase the future profits of the business. The empirically measured growth in profits includes, therefore, both increases in profit resulting from inflation as well as increases resulting from retained earnings.

The net income to be discounted under the discounted dividends method consists in the long term of the distributions of profit / dividends and the contribution from increases in value. Since the contribution from increases in value completely covers the future growth in dividends from retained earnings, the rate of growth rate in the profit distributions / dividends mostly reflects only the effects on value from inflation which result from the specific rate of inflation for the company which is the subject of the valuation.

In the present valuation, the applied growth rate of 1.25 % (Variation 1) under the relationship described by Tschöpel/Wiese/Willershausen[230]:

$w = (1 - q) * R^{vSt} + q * \pi$ whereby

w	=	total growth rate
q	=	distribution quota
R^{vSt}	=	levered costs of equity before taxes in income
π	=	business-specific rate of inflation.

corresponds to a sustained growth in profits of STADA of 5.23 %.[231]

[229] The amount of the growth rate in Variation 2 (1.0 %) is supported by the Valuation Expert with considerations relating to consistency with regard to the reduced market risk premium after personal taxes in Variation 2.

[230] See, Tschöpel/Wiese/Willershausen, WPg 2010, pp. 349 et seq. and 405 et seq.

The described influence of the growth resulting from retained earnings is confirmed in a current article[232] which analyzes in detail the causes for growth of profits. The authors also conclude in this article that the profits of companies resulting from growth in prices in Germany lies in a range of 0.0 % to 1.5 %. Thus, the expected growth of 1.25 % is slightly above average compared to this basis.

In order to consider the applied growth rate, it is also necessary to mention that the growth rates normally applied in valuation practice and confirmed by the case law have to date been in a range of 0.0 % to 2.0 %. An analysis of 52 decisions in the recent past from six Courts of Appeals shows a distribution of nine instances of valuation having growth rates below 1.0 % (to 0 %), a further 26 with exactly 1.0 % and in 17 cases more than 1.0 % (up to 2.0 %). The growth applied in the present case is accordingly within the range of the cases forming the basis of these decisions, but not in the middle of the range.[233]

It must also be considered that the decisions were issued for valuation dates for which there was (in part significant) higher levels of inflation and interest. Taking into account the current insignificantly increasing level of inflation and interest which is also expected in the market to continue in the mid-term to the long term, the expectation is that courts will in the future consider growth rates of well below 1.0°% to no longer be an exception.

According to a recently published analysis of 155 valuation reports prepared for reasons arising under corporate law having valuation dates within a period from 2010 to 2016, the average growth rate in the long-term results in the years 2010 to 2016 decreased from 1.31 % to 0.89 %. The median in the growth rates in the years 2011 to 2015 remained unchanged at 1.00 %. A median of 0.75 % resulted for the first time in the year 2016.[234]

Result of the audit

Based on the described considerations, we consider the applied growth rate of 1.25 % (Variation 1) to be at the upper end of a range of possible growth rates and a growth rate of 1.0 % (Variation°2) for the middle in a range of potential growth rates to be reasonable.

231 A growth rate of 1.0 % (Variation 2) corresponds to sustained growth of profits of STADA of 4.75 %.
232 Schieszl/Bachmann/Amann, in: Peemöller (publisher), Practice Handbook for Business Valuation (*Praxishandbuch der Unternehmensbewertung*), 6th edition, 2015, 3rd chapter, Part G.
233 These cases, however, include companies with other business models.
234 See, Beumer, Corporate Finance 2017, p. 173.

d) Overview of the capitalization interest rate

The capitalization interest rate used by the Valuation Expert (Variation 1) is summarized as follows:

Stada AG Determination of the Cost of Capital - Variation 1 € mio.	Plan 2018	 2019	 2020	Convergence Phase 2021	 2022	 2023	TV 2024
Costs of Equity							
Base interest rate before personal taxes	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%
Personal income tax	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%
Base interest rate after personal taxes	**0,92%**	**0,92%**	**0,92%**	**0,92%**	**0,92%**	**0,92%**	**0,92%**
Market risk premium after personal taxes	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%
Beta (levered)	0,95	0,93	0,93	0,93	0,92	0,92	0,92
Risk premium	**5,72%**	**5,58%**	**5,59%**	**5,56%**	**5,53%**	**5,51%**	**5,51%**
Costs of equity before growth rate	**6,64%**	**6,50%**	**6,51%**	**6,48%**	**6,45%**	**6,43%**	**6,43%**
Growth rate							-1,25%
Costs of equity after growth rate	**6,64%**	**6,50%**	**6,51%**	**6,48%**	**6,45%**	**6,43%**	**5,18%**

Source S&P Global; own calculations.

The capitalization interest rate applied by the Valuation Expert in a sensitivity analysis (Variation 2) is determined by way of summary as follows:

Stada AG Determination of the Cost of Capital - Variation 2 € mio.	Plan 2018	 2019	 2020	Convergence Phase 2021	 2022	 2023	TV 2024
Costs of Equity							
Base interest rate before personal taxes	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%
Personal income tax	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%
Base interest rate after personal taxes	**0,92%**	**0,92%**	**0,92%**	**0,92%**	**0,92%**	**0,92%**	**0,92%**
Market risk premium after personal taxes	5,50%	5,50%	5,50%	5,50%	5,50%	5,50%	5,50%
Beta (levered)	0,94	0,92	0,92	0,91	0,91	0,91	0,91
Risk premium	**5,15%**	**5,03%**	**5,05%**	**5,03%**	**5,01%**	**5,00%**	**5,00%**
Costs of equity before growth rate	**6,07%**	**5,96%**	**5,97%**	**5,95%**	**5,93%**	**5,92%**	**5,92%**
Growth rate							-1,00%
Costs of equity after growth rate	**6,07%**	**5,96%**	**5,97%**	**5,95%**	**5,93%**	**5,92%**	**4,92%**

Source S&P Global; own calculations.

6. Determination of the business value

a) Discounted dividends value from the assets required for the business

The discounted dividends value of the assets of STADA required for the business as of 2 February 2018 is determined in the Variation 1 (market risk premium after personal taxes of 6.0 %, growth rate 1.25 %) as follows:

Stada AG Discounted dividends value of assets required for business Variation 1 / € mio.	Plan 2018	 2019	 2020	Convergence Phase 2021	 2022	 2023	TV 2024
EBIT	348,4	405,4	432,4	462,9	486,3	492,4	498,5
Financial result	-46,1	-44,1	-39,0	-26,5	-25,4	-25,7	-26,1
EBT	**302,3**	**361,3**	**393,5**	**436,5**	**460,9**	**466,6**	**472,5**
Income taxes	-83,1	-98,5	-105,1	-116,5	-123,1	-124,6	-126,2
Net profit	**219,2**	**262,9**	**288,4**	**319,9**	**337,8**	**342,0**	**346,3**
Distribution	88,3	105,8	115,3	128,0	135,1	136,8	138,5
Personal taxes on distribution	-23,3	-27,9	-30,4	-33,8	-35,6	-36,1	-36,5
Retention with planned use	130,8	77,1	129,1	81,7	54,5	17,8	18,0
Retention with deemed attribution	0,0	80,0	44,0	110,3	148,2	187,4	189,8
Personal taxes on deemed retention	0,0	-10,5	-5,8	-14,5	-19,5	-24,7	-25,0
Net income	**65,0**	**147,3**	**123,1**	**189,9**	**228,1**	**263,5**	**266,7**
Costs of capital	6,64%	6,50%	6,51%	6,48%	6,45%	6,43%	5,18%
Present value factor	0,9378	0,9390	0,9389	0,9392	0,9394	0,9396	19,3166
Present values as of 31 December	4.318,4	4.539,9	4.687,6	4.869,5	4.995,0	5.089,0	5.152,6
Discounted dividends value of assets required for business as of 31 December 2017	**4.318,4**						
Interest factor	1,006						
Discounted dividends value of assets required for business as of 2 February 2018	**4.343,6**						

Source: Database of Valuation Expert; own illustration.

The discounted dividends value of the assets of STADA required for the business as of 2 February 2018 is determined in the Variation 2 (market risk premium after personal taxes of 5.5 %, growth rate 1.0 %) as follows:

Stada AG Discounted dividends value of assets required for business Variation 2 / € mio.	Planning 2018	 2019	 2020	Convergence Phase 2021	 2022	 2023	TV 2024
EBIT	348,4	405,4	432,4	460,3	480,3	485,1	490,0
Financial Result	-46,1	-44,1	-39,0	-26,5	-25,4	-25,7	-25,9
EBT	**302,3**	**361,3**	**393,5**	**433,8**	**454,9**	**459,5**	**464,1**
Income taxes	-83,1	-98,5	-105,1	-115,8	-121,5	-122,7	-123,9
Net profit	**219,2**	**262,9**	**288,4**	**318,0**	**333,4**	**336,8**	**340,2**
Distribution	88,3	105,8	115,3	127,2	133,4	134,7	136,1
Personal taxes on distribution	-23,3	-27,9	-30,4	-33,5	-35,2	-35,5	-35,9
Retention with planned use	130,8	77,1	129,1	79,1	48,8	14,1	14,3
Retention with deemed attribution	0,0	80,0	44,0	111,6	151,3	187,9	189,8
Personal taxes on deemed retention	0,0	-10,5	-5,8	-14,7	-19,9	-24,8	-25,0
Net income	**65,0**	**147,3**	**123,1**	**190,6**	**229,5**	**262,3**	**264,9**
Kapitalkosten	6,07%	5,96%	5,97%	5,95%	5,93%	5,92%	4,92%
Present value factor	0,9428	0,9438	0,9436	0,9438	0,9440	0,9441	20,3438
Present values as of 31 December	4.610,9	4.825,6	4.965,6	5.139,1	5.254,5	5.336,7	5.390,0
Discounted dividends value of assets required for business as of 31 December 2017	**4.610,9**						
Interest factor	1,005						
Discounted dividends value of assets required for business as of 2 February 2018	**4.635,5**						

Source: Database of Valuation Expert; own illustration.

b) Special values

The Valuation Expert identified assets and sets of facts which, as assets not required for the business, must be added to the discounted dividends value of the assets required for the business or must be shown separate values for reasons describing the company.

The balance added to the discounted dividends value of the assets required for the business is derived in Variation°1 (market risk premium after personal taxes 6.0 %, growth rate 1.25 %) as follows:

Stada AG Special values - Variation 1 € mio.	
Minorities	-59,8
Assets not required for business	83,8
Non-operational companies	3,8
Special value as of 2 February 2018	**27,9**

Source: Database of Valuation Expert; own illustration.

The balance added to the discounted dividends value of the assets required for the business is derived in Variation°2 (market risk premium after personal taxes 5.5.0 %, growth rate 1.0 %) as follows:

Stada AG Special values - Variation 2 € mio.	
Minorities	-62,9
Assets not required for business	83,8
Non-operational companies	3,8
Special value as of 2 February 2018	**24,8**

Source: Database of Valuation Expert; own illustration.

The Valuation Expert did not directly take into account the portions of the Group results attributable to minority shareholders outside the Group in five subsidiaries included in consolidation when modeling the discounted dividends value of the assets of STADA required for the business as of 2 February 2018 when determining the net income for the shareholders of STADA. Instead, the Valuation Expert deducts the separately calculated present value of the negative contribution to value from taking into account minority shares subsequently when deriving the business value. These two possible approaches are different only in terms of how they describe the situation, but not with regard to the result.

The assets not required for the business include, on the one hand, the purchase price agreed for the sale of the subsidiary STADA Vietnam (€ 31.0 m). Secondly, the Valuation Expert classified the planned outflow of liquid funds in the financial year 2018 for the planned distribution of dividends for the financial year 2017 (€ 52.8 m) as an asset not required for the business. The Valuation Expert did not identify any other assets not required for the business.

The Valuation Expert determined a special value in the amount of the proportionate equity on the basis of the last available data for all companies which are not included in the Group planning.

We obtained explanations about these situations, agreed on the starting values and verified the required calculations. There were no reasons for any objection.

Result of the audit

We were able to verify the reasons for the applied special values and consider the methodology for determining the value to be reasonable. They were also mathematically correctly calculated. Simplifications were not made to the detriment of the outside shareholders. We did not learn about any other assets not required for the business during the course of our audit.

c) <u>Business value</u>

The business value of STADA as of the date of the GM adopting the resolution (valuation date) results from adding the discounted dividends value of the assets required for the business (€ 4,343.6) and the special values (€ 27.9 m) for a total of € 4,371.5. This is a converted amount of € 70.22 per outstanding share in STADA (Variation 1).

The business value of STADA as of the date of the GM adopting the resolution (valuation date) results from adding the discounted dividend value of the assets required for the business (€ 4,635.5) and the special values (€ 24.8 m) for a total of € 4,660.2. This is a converted amount of € 74.85 per outstanding share in STADA (Variation 2).

Result of the audit

Converted to the shares which are in circulation (62,258,129), this results in a range for the value per outstanding share in STADA of € 70.22 to € 74.85.

d) Comparison with the liquidation value

The Valuation Expert did not determine the liquidation value of STADA. The Valuation Expert states that the reason for this approach is the finding that the returns on capital employed are always above the levered costs of equity and that the assumption must accordingly be that the continuation of the business is more favorable compared to liquidation. We have verified these considerations and also do not consider necessary to determine the liquidation value.

7. Reasonableness of the business value

a) Business value in the case of indirect typification

In accordance with the DVFA-Recommendations, ValueTrust also determine ranges for the business value before personal taxes and applied the DCF method for this purpose in the form of directly determining the value of equity ("cash flows to equity").

Compared to the determination of the business value on the business value of the discounted dividends method and identical and consistent[235] assumptions, the Valuation Expert calculates a range for the value of the equity before personal taxes from € 4,252.2 m to € 4,707.1 m which corresponds to € 68.30 to € 75.61 per share in STADA.

We were able to verify the calculation of the Valuation Expert.

Since including personal taxes affects both the numerator as well as the denominator in the calculation of value, these effects generally offset each other. The indirect typification accordingly comes to similar and theoretically even identical results.[236]

This is also shown in the present calculations. Thus, there are no indications upon examining the reasonableness that the present valuation does not lead to correct results.

b) Comparative market valuation

The Valuation Expert checked the reasonableness of the business value of STADA determined under the discounted dividends method and, thus, on the basis of detailed, internal information and business management principles (fundamental approach) on the basis of public capital markets data ("trading multiples") and transactions ("transaction multiples"). The Valuation Expert determined the trading multiples for the peer group companies which were used to determine the beta factor.

The Valuation Expert determined multiples in the comparative valuation using the ratio of the total value of the business[237] to the numbers for results EBITDA, EBIT and the so-called cash contribution.[238]

EBITDA and EBIT multiples are common methods for checking the reasonableness of business values determined in a fundamental approach. The Valuation Expert also used cash contribution multiples to

[235] Market risk premium before taxes in Variation 1 in the amount of 7.0 % and in Variation 2 in the amount of 6.25 %.
[236] Minor differences result from rounding the market risk premium before and after personal taxes.
[237] "Enterprise Value" = "EV".
[238] The cash contribution results as the difference between the EBITDA and investments in plant and equipment ("CAPEX").

take into account the very different intensity of investments and accounting policies in the peer group companies.

The basis for the calculation of the multiples are the estimates by analysts of EBITDA, EBIT and CAPEX for the financial years 2018 to 2020 provided by S&P Global. There was not a sufficient number of estimates for subsequent financial years.

The Valuation Expert based the further analyses on the medians of the EBITDA, EBIT and Cash Contribution multiples of the peer group companies for the years 2018 and 2019.

The Valuation Expert represented with regression lines the connections between the forecast EBITDA growth and the EBITDA multiples, the forecast EBIT growth and the EBIT multiples and the forecast EBIT growth and the cash contribution multiples in each case for the years 2018 to 2020 and 2019 to 2020. The regression lines show that there is a positive connection for the peer group between the expected EBITDA growth and the EBITDA multiples and between the expected EBIT growth and the EBIT multiples. There is also a clear positive connection between the expected EBIT growth and the cash contribution multiples. The Valuation Expert accordingly used the corresponding rates of growth from the planning of STADA and determined the corresponding multiples on the regression lines in the expert's further analysis.

The Valuation Expert accordingly developed six different types of multiples in each case for a range of multiples which, on the one hand, are defined by the median of the peer group and, on the other hand, by the multiple derived from the regression. Based on the reference variables of the STADA derived from the Group planning, six ranges of overall business values of STADA result. The Valuation Expert compiled these ranges to make an average range of total business values for STADA between € 5,253.4 m and € 5,609.4 m.

After deducting the interest bearing liabilities and minorities and taking into account the special values, the multiple approach results in a range for the value of the equity in STADA of € 3,917.0°m to € 4,273.0°m. The Valuation Expert applied the value expected as of 31 December 2017 when determining the interest bearing liabilities.

In a final step, the Valuation Expert increased the determined range of equity values with a deemed takeover premium of 10 %, because the stock exchange multiples, in the view of the Valuation Expert, only reflect the prices of minority shareholdings, so that the business values derived on the basis of stock exchange multiples should be increased by a financial premium for control. Based on the analysis of transactions and an empirical study, ValueTrust determines a control premium of 10 %.

We consider the premium for taking over control in the present case not to be appropriate because the takeover of control of a company is not simulated in the context of an objectified business valuation. However, the control premium leads to a shift in the ranges of values under the comparative market valuation upwards and is, thus, no reason for objection from the point of view of the outside shareholders.

The range of market values for the equity of STADA determined on the basis of the comparable market valuation lies between € 4,308.7 m and € 4,700.3 m. The result is that the range of the business value determined with the fundamental, analytical discounted dividends method (value of the equity) accordingly lies within the described range.

We were able to verify the approach and the calculations of ValueTrust with regard to substance and mathematics using the "consensus estimates" of S&P Global, and there were no reasons for objection.

The Valuation Expert additionally derived EBITDA multiples from comparable transactions. The Valuation Expert compiled this to a range of multiples from the median of the observed transactions and the value of the, in the opinion of the Valuation Expert, best comparable transaction. The Valuation Expert applied the values for the range to the expected EBITDA of STADA in the best estimate year 2017.

After deducting the financial liabilities and the minorities and adding the special values, a range for the fair market value of the equity results between € 4,320.7 m and € 4,494.7 m and from € 69.40 to € 72.20 for each STADA share.

We also verified the substance and mathematics of this approach and the calculations by ValueTrust on the basis of the "consensus estimates" of S&P Global and found no reason for objection.

The range of the business values of STADA derived from the transaction multiples overlaps accordingly the lower end of the range determined by the fundamental analysis. As the Valuation Expert correctly finds, there are still no indications that the fundamentally determined business value might be unreasonable. Instead, the Valuation Expert points out that the purchase prices can be influenced by subjective interests of the partners to the transaction, for example, synergy effects. Furthermore, the observed transactions took place in a relatively long period of time of three years before the valuation date. Thus, the informative value of this approach to the valuation is limited for the valuation of the present business.

We consider the approach for determining the comparison-oriented valuation to be generally appropriate and reasonable. According to the findings of the Valuation Expert in the present case, which we share, the comparative market valuation does not result in any indications that the range of the business value of STADA determined with the discounted dividends method might be incorrect.

c) Additional standards for comparison

A comparison of the range of the business value per share (€ 70.22 to € 74.85) with the improved voluntary public takeover offer of Nidda Holding dated 18 July 2017 to the shareholders of STADA with the offered consideration (€ 66.25)[239] does not indicate that the calculated business value is too low. The takeover offer initially itself, contrary to the present DPLTA, does not constitute any reason for a fundamental valuation of the business. Furthermore, the agreed offer price at that time, which corresponded to the relevant provisions in the WpÜG, is below the range of proportionate value of the business determined by ValueTrust, anyway.

On 31 August 2017, the STADA shareholder Elliott Management Corporation, New York/USA, issued the public statement that it would only support a DPLTA if the compensation was not less than € 74.40 per STADA share. The amount of the compensation demanded by Elliott is not suitable for checking the reasonableness of the business value, and Elliott especially did not disclose the considerations behind this claim. Aside from this, the compensation demanded by Elliott also corresponds to the fixed cash compensation.

Since STADA shares are traded on the stock exchange, there are also stock exchange prices which can be referred to in general to evaluate the reasonableness of the business value determined with the fundamental analysis.

However, it is necessary to carefully analyze whether the stock exchange price might be distorted due to special influences that might have affected the pricing on the exchange and whether this does not reflect the fair market value of STADA.

The Valuation Expert represents in a graph the development of the stock exchange price for the STADA stock and its trading volume in the period 8 February 2016 to 8 December 2017. The Valuation Expert explains in the text following the graph that there are major developments. In a further graph, the Valuation Expert compares the development of the stock exchange price for the STADA stock with various indices for the same period of time. In a third graph, the Valuation Expert extends the comparison period to a longer period. The Valuation Expert concludes that the STADA stock was influenced at the latest strongly since December 2016 by takeover rumors and the subsequent, actual takeover offers.

We consider the analysis described in the Valuation Report to be verifiable. Therefore, no conclusions about the business value of the STADA can be drawn from the development of the stock exchange price in the last year.

Result of the audit

The finding by way of summary is that our check of the reasonableness does not result in any indication that the determined range of the business value of STADA might not be correct.

[239] Including a dividend of € 0.72.

8. Determination of the adequate compensation and the adequate guaranteed dividend

a) Determination of the compensation pursuant to § 305 AktG

Based on the range of the business value of STADA as of 2 February 2018 in the amount of € 4,371.5 m to € 4,660.2 m under the discounted dividends method, dividing this value by the number of outstanding shares (62,258,129) results in a range for the value per share of € 70.22 to € 74.85.[240]

The compensation was fixed at € 74.40 per STADA share held by an outside shareholder. The offered compensation is accordingly within the range resulting from the determined range for the business value per STADA share.

With regard to the case law of the BVerfG[241], the stock exchange price for the STADA stock is generally an appropriate reference number for determining its fair market value. The stock exchange price generally represents the lowest limit for the compensation to be paid to the shareholder.

The Valuation Report accordingly also addresses the question whether the stock exchange price for the STADA stock determined in accordance with the standards of the case law of the highest courts must be taken into account when determining the cash compensation to the outside shareholders.

According to an order of the BGH dated 19 July 2010, an adequate compensation must generally be based on the weighted average price within a three-month reference period prior to announcing the structural measure. If a longer period of time passes between the announcement of the structural measure and the date of the general shareholders' meeting and the development of the stock prices indicates that an adjustment is appropriate, the stock exchange value must be extrapolated in accordance with the general development of value or the typical development within the industry, taking into account the development of the stock price since that time.[242]

Since the public disclosure of Nidda Holding that it intended to conclude a DPLTA with STADA took place on 24°August 2017 and, thus, in the view of the Valuation Expert there is no longer period of time within the meaning of the case law of the BGH, the Valuation Expert referred to a reference period that ended on 23 August 2017 when determining the reference period.

We consider the chosen reference period to be appropriate based on the case law of the BGH. We especially also share the related assessment that no longer period of time exists within the meaning of the cited order dated 19 July 2010.

However, important arguments can be raised against determining the fair market value fair market value using the stock exchange price. The relevance of the stock exchange price for determining the fair market value of the shares, according to the finding of the BGH, must be found not to be appropriate in cases in which no trading has taken place over an extended period of time or if a minority shareholder is

240 See, D.IV.6.c), p. 88
241 See, BVerfG, order dated 27 April 1999 – 1 BvR 1613/94, BVerfGE 100, pp. 289 et seq.
242 See, BGH, order dated 19 July 2010, II ZB 18/09, BGHZ 186, pp. 229 et seq., repeated in an order dated 28 June 2011, II ZB 2/00, AG 2011, pp. 590 et seq.

not able to sell its shares at the stock exchange price due to a tight market or if the stock price has been manipulated.[243]

According to the findings of the Valuation Expert, the trading in the STADA shares was observed not to be too small in the relevant reference period. Thus, there are no indications that individual shareholders would not have been able to sell their shares at the stock exchange price. There is also no sufficiently certain knowledge that the stock price might have been manipulated. We have no indications for any determination to the contrary.

The Valuation Expert states that the stock price on the basis of the three-month weighted average price determined by the BaFin prior to 24 August 2017[244] is € 65.41. We have requested the information from the BaFin and provided this to the Valuation Expert.

Since the determined average stock price per share of STADA is below the offered cash compensation of € 74.40 per STADA share, it does not constitute the lower limit for the compensation.

Result of the audit

Since the relevant stock price does not constitute the lowest limit for a range of the adequate cash compensation of € 70.22 to € 74.85 per share in STADA, the cash compensation within this range is adequate within the meaning of § 305 AktG.
Since the compensation of € 74.40 agreed in the DPLTA is within the above-mentioned range, this agreed compensation is also adequate within the meaning of § 305 AktG.

If there are material changes in the assets, financial situation and earnings position or other bases of the valuation of STADA in the time between the completion of our audit of the DPLTA (21 December 2017) and the planned point in time for the GM of STADA to adopt the resolution about concluding the DPLTA (2 February 2018), these changes would still have to be considered when determining the cash compensation, especially to the extent that a value per STADA share would result due to the changes which is higher than the contractually agreed compensation.

b) <u>Reasonable guaranteed dividend pursuant to § 304 AktG</u>

The basis for determining the guaranteed dividend payment consists of the compensation per share which lies in the range of the adequate cash compensation of € 70.22 to € 74.85.

The Valuation Expert assumed an interest rate which was equivalent in terms of risk and term for the purpose of annuitizing the cash compensation. The Valuation Expert determined this interest rate upon considering the specific risk situation for the outside shareholders resulting under the contract.

The risk that the business value could be reduced at the time of termination of a corporate group agreement, especially domination in profit and loss transfer agreement, as a result of measures by the other contract partner is not taken into account in the present case. As a result of granting a right to put the shares for a limited time in the event of a termination of the contract by STADA or Nidda Healthcare,

243 See, BGH, order dated 12 March 2001, ibid.
244 Pursuant to § 31 Abs. 7 WpÜG in conjunction with § 5 para. 3 WpÜG-AngVO.

the outside shareholders receive a fixed guaranteed dividend during the term of the contract and the value the STADA shares would have had at the time the contract is concluded when the contract ends.

The outside shareholders of STADA continue to have the risk in the present case accordingly only that the contract partner with the obligation to pay the guaranteed dividend will not comply with this obligation. Thus, the business value of STADA must be annuitized at an interest rate which reflects the conditions which Nidda Healthcare currently offers for unsecured bonds.

Since Nidda Healthcare does not offer any unsecured bonds, ValueTrust used the returns on the corporate bonds issued by the direct and indirect shareholders of Nidda Holding and Nidda BondCo GmbH[245] which they issued on 29 September 2017 to finance the acquisition of the STADA shares.

This involves unsecured Senior Notes of Nidda BondCo with a volume of € 340 m, a term of eight years and an interest coupon at an annual rate of 5.0 % and Senior Secured Notes of Nidda Holding having a volume of € 735 m and an interest coupon at an annual rate of 3.5 %.

Since the guaranteed dividend payments have equal ranking with the Senior Notes but are subordinated to the Senior Secured Notes, the credit risk of the Senior Notes corresponds to the risk involved with the guaranteed dividend payments. Based on empirical studies on the duration for which financial investors hold shares, ValueTrust also assumes that the term of the DPLTA will generally correspond to the remaining term of the Senior Notes. Based on the assumed congruence and term of the Senior Notes with the guaranteed dividend payments, ValueTrust derives an annuitization interest rate for the guaranteed dividends in a first variation from the effective return on the Senior Notes of currently 4.85 %.

The Valuation Expert also obtained the returns for comparable, unsecured corporate bonds having a term of 7 to 8 years in the capital market. The identified returns are 4.4 % to 4.6 % and, thus, slightly below the return on the Senior Notes.

ValueTrust concludes that an annuitization interest rate of 4.75 % before taxes is reasonable.

Reference to the risk of loss of payments by the majority shareholder is standard practice and, in our view, also correct. It is also recognized by the courts.[246] We were also able to verify the determination of the specifically used (gross) interest rate on the basis of the documents presented to us and the supplemental analysis by the Valuation Expert.

Based on this, an adequate guaranteed dividend payment results in a range of € 3.34 to € 3.55 (net) for each outstanding share in STADA.

The contractually established guaranteed dividend per STADA share is € 3.53 (net). Since the contractually established guaranteed dividend per share lies within the above-mentioned range, this guaranteed dividend is also adequate within the meaning of § 304 AktG.

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[245] "Nidda BondCo".
[246] See, order of the LG Munich I dated 31 July 2015, 5 HKO 16371/13, BeckRS 2015, p. 13240.

Upon dividing the business value before corporate income tax and solidarity surcharge into shares which are burdened with corporate income tax and the solidarity surcharge and shares which are not burdened, the annual gross guaranteed dividend payment to be granted in accordance with the Ytong order and the resulting annual net guaranteed dividend payment based on the circumstances on the valuation date are as follows:

Stada AG Guaranteed dividend payment - Variaton 1 €	Burdened with KSt, SolZ	Not burdened with KSt, SolZ	Total
Value per share	32,24	42,16	74,40
Annuatization interest rate	4,75%	4,75%	4,75%
Net guaranteed dividend per share	**1,53**	**2,00**	**3,53**
Plus KSt and SolZ	0,29	0,00	0,29
Gross guaranteed dividend per share	**1,82**	**2,00**	**3,82**

Source: Database of Valuation Expert; own illustration.

Result of the audit

Guaranteed dividend payments within a range of € 3.34 to € 3.55 (net) for each outstanding share in STADA are adequate within the meaning of § 304 AktG.

Since the guaranteed dividend payment of € 3.53 (net) agreed in the DPLTA lies within the above-mentioned range, this guaranteed dividend payment is also adequate within the meaning of § 304 AktG.

Without taking into account the deduction of corporate income tax and solidarity surcharge, a gross guaranteed dividend payment of € 3.82 per share is promised. We consider this to be adequate based on our audit.

If there is any change in the tax rates for corporate income tax and the solidarity surcharge in the future, the net guaranteed dividend payment will change in accordance with § 4 para. 2 of the DPLTA.

This is appropriate in light of the case law of the BGH.

If there are material changes in the assets, financial situation and earnings position or other bases of the valuation of STADA in the time between the conclusion of our audit of the adequacy of the guaranteed dividend payment (21 December 2017) and the intended date for the GM of STADA which will adopt the resolution about the conclusion of the DPLTA (2 February 2018), these changes would have to be still taken into account when assessing the guaranteed dividend payment, especially to the extent that a guaranteed dividend would result from the changes which exceeds the currently proposed guaranteed dividend.

E. <u>Final statement</u>

We have audited as the court appointed auditor the Domination and Profit and Loss Transfer Agreement concluded between STADA Arzneimittel Aktiengesellschaft and Nidda Healthcare GmbH. This agreement corresponds to the provisions in the law, according to our findings.

We issue the final statement pursuant to § 293e AktG on the adequacy of the guaranteed dividend and the compensation as follows:

"According to our findings and based on the stated reasons, a guaranteed dividend for the outside shareholders of STADA Arzneimittel Aktiengesellschaft in a range from € 3.34 to € 3.55 (net) for each outstanding share in STADA Arzneimittel Aktiengesellschaft for each full financial year and compensation, under which the outside shareholders of STADA Arzneimittel Aktiengesellschaft receive cash compensation for each outstanding share in the Company in a range from € 70.22 to € 74.85 is adequate within the meaning of §§ 304 and 305 AktG.

Since the guaranteed dividend for the outstanding shareholders of STADA Arzneimittel Aktiengesellschaft of € 3.53 (net) and the agreed compensation of € 74.40 in the Domination and Profit and Loss Transfer Agreement are within the above-mentioned ranges, the guaranteed dividend and the compensation are also adequate within the meaning of §§ 304 and 305 AktG.

We determine that the provision in the Domination and Profit and Loss Transfer Agreement, according to which the guaranteed dividend payment consists of a fixed gross amount of € 3.82 per outside share in STADA Arzneimittel Aktiengesellschaft minus the burden of corporate income tax and the solidarity surcharge resulting from the rate applicable for these taxes in the relevant year is adequate within the meaning of § 304 AktG in connection with the decision of the BGH II ZB 17/01 dated 21 July 2003."

Düsseldorf, 21 December 2017

ADKL AG
Wirtschaftsprüfungsgesellschaft

Wolfram Wagner
Wirtschaftsprüfer

ppa. Ulrich Kühnen
Wirtschaftsprüfer

3-05 O 77/17

LANDGERICHT (REGIONAL COURT) FRANKFURT AM MAIN
DECISION

In the proceedings

regarding the appointment of a contract auditor in accordance with section 293c(1) AktG

for

1) STADA Arzneimittel AG, represented by its 12-18,
61118 Bad Vilbel, applicant

2) Nidda Healthcare GmbH, represented by its 2)Nidda Healthcare GmbH, represented by its managing director, c/o Intertrust (Deutschland) GmbH, Grüneburgweg 58-62, 60322 Frankfurt am Main, applicant

concerning a domination and profit and loss transfer agreement planned between the two undertakings

the Fifth Chamber for Commercial Matters of the Regional Court of Frankfurt am Main, acting through Dr. M. Müller, the Presiding Judge at the Regional Court, ordered on 21 September 2017:

The company appointed to conduct the joint audit of the planned domination and profit and loss transfer agreement shall be

AKDL AG
Financial Auditors
Attn.: Mr. Wolfram Wagner
Breite Str. 29-31,
40213 Düsseldorf

.

The applicants shall bear the costs of the appointment proceedings as joint and several debtors.

The value of the subject matter is set at EUR 60,000.

Grounds

There is nothing to indicate that the applicants’ proposal for the appointed auditor should not be followed, meaning that the court can use the applicants’ joint proposal when choosing between potential auditors. The court has no concerns regarding the appointed auditor. According to the appointed auditor’s declaration of 13 September 2017, there are no legal obstacles.

In the interests of increasing the transparency and acceptance of the audit, the contract auditor is to address and comment on the following points in the audit report.

1.
Where, how and when the audit occurred.

2.
In accordance with section 1(1) of the Appraisal Proceedings Act (SpruchG), the auditor is expressly advised of the court’s view with regards possible appraisal proceedings that the legislator’s intention in relation to the advance appointment of suitability auditors can only be implemented in appraisal proceedings if the auditor’s report constitutes an independent opinion (see also Federal Constitutional Court dated 30 May 2007 —1 Bv1Z. 390/04 — AG 2007, 544 = NZG 2007, 587) when compared to the transfer report, avoiding closeness to the company and, in this case, to the major shareholder and demonstrating distance from the latter’s report. As part of this, it is important to consider that whilst the auditor is appointed by the court, it reports to the company and the shareholders rather than to the court.

Even if, in principle, there are no objections to a parallel audit, it is appropriate however for the contract auditor to comment in its opinion on the nature of collaboration with any valuation experts appointed by the major shareholder and on discussions concerning critical points etc, in particular the points where the views of the contract auditor and those of the valuation expert diverged, and it is important to state why the view of the auditor or that of the valuation expert is ultimately preferable.

3.

It is important to state the sources of the parameters used by the auditor for measuring the net income value (base rate of interest, growth allowance, excess returns, risk premium (when using CAPM or TAX CAPM: BETA factor and potentially composition of a peer group) and why these indices and/or in particular time spans used are preferable to others that also come into consideration.

4.

If past results are adjusted for certain extraordinary income or expenses, it is important to state and justify why this has happened.

5.

The same initially applies as in section 4 above for projected company earnings. Moreover, it is important to set out the sources of any corporate planning.

6.

The auditor is required to submit a copy of its report to the court's files. Insofar as it made use of a computer programme when calculating the value of the undertaking and the interest parameters, it is requested to enclose copies of the file produced in the process (e.g. Excel sheet) and the audit report as a file for the court on a usable data carrier (e.g. CD-ROM; USB stick, as an email attachment where appropriate to M.Mueller@LG-Frankfurt.Justiz.Hessen.de).

7.

When requested by the court, the auditor is to disclose to the court the remuneration agreement with the applicant and the invoice following the end of its work.

8.

As a matter of precaution, the auditor is advised that when requested by the court, it must provide a written statement on the appropriateness of any recurring compensation payment or compensation and that it may be ordered to appear in any oral proceedings.

The decision on costs follows from section 22 GNotKG.

The value of the subject matter is determined by section 67 GNotKG.

Information on legal remedies:

This decision can be appealed by submitting a statement of appeal to the Landgericht (Regional Court) Frankfurt am Main or by recording the appeal to the records of the court registry within one month of receiving the decision. The appeal must contain the designation of the decision being contested and a declaration that this decision is being appealed. The statement of appeal must be signed by the appellant or their authorised representative.

Dr. M. Müller

Date	Place	Participants	Topic
11 Sept. 2017	Phone call	Lawyers	Request about availability to contract audit
13 Sept. 2017	Email/Post	Lawyers	Issue of independency confirmation letter for the District Court
21 Sept. 2017	Phone call	Lawyers	Notification about appointment by District Court
2 Oct. 2017	Frankfurt am Main	All	Kick-Off-Meeting (Introducing teams, reconciliation of timeline, project and organizational topics)
9 Oct. 2017	Phone call	Value Trust	Reconciliation of schedule Valuation/Audit
11 Oct. 2017	Phone call	Value Trust	Reconciliation of schedule Valuation/Audit
17 Oct. 2017	Email	STADA	Documenting a list of Insider
20 Oct. 2017	Munich	Value Trust	Illustration of the fundamental approach, reconciliation of schedule Valuation/Audit
20 Oct. 2017	Email	Lawyers	First draft of the Valuation Report
24 Oct. 2017	Internet	STADA	Access to Data room
27 Oct. 2017	Email	Value Trust	First parts of the Valuation opinion
8 Nov. 2017	Phone call	STADA Value Trust	Forecasting (esp. Analysis and listing format)
10 Nov. 2017	Phone call	Value Trust	Peer Group Composition
15 Nov. 2017	Email	Value Trust	Raw data peer group für benchmarking und multiples
21 Nov. 2017	Phone call	Value Trust	Development of STADA stock price, composition of peer group, parameters for modelling (special values and others)
21 Nov. 2017	Phone call	Value Trust	Beta factors peer group
23 Nov. 2017	Bad Vilbel	STADA Value Trust	Business model, planned accounts (emphasis: adjustments in the iterative process), taxes
24 Nov. 2017/ 29 Nov. 2017	Internet	STADA	Access to adjusted forecasting (Focus on adjustments originating from counter-flow approach, consolidated forecast, adjusted budgets of all entities to plan) in the data room
27 Nov. 2017	Phone call	All	Status Call
27 Nov. 2017	Phone call	Value Trust	Composition of the peer group, beta factors
28 Nov. 2017	Phone call	STADA Value Trust	Reconciliation analysis options

Date	Place	Participants	Topic
29 Nov. 2017	Email	STADA	Forecast approved by the Management Board, transmission of the presentation to the Supervisory Board
30 Nov. 2017	Bad Vilbel	STADA Value Trust	Questions to the approved forecasting
1 Dec. 2017	Phone call	STADA Value Trust	Perpetuity
1 Dec. 2017	Email	Lawyers	First Draft of Domination and Profit and Loss Transfer Agreement
1 Dec. 2017	Email	Value Trust	First excerpts from the valuation model
4 Dec. 2017	Phone call	All	Status Call
6 Dec. 2017	Internet/Tel.	Value Trust	Web-Conference about valuation model
8 Dec. 2017	Phone call	Value Trust	Detailed questions to valuation model
11 Dec. 2017	Phone call	All	Status Call
11 Dec. 2017	Email	Value Trust	First complete draft of the valuation report
13 Dec. 2017	Internet/Tel.	Value Trust	Web-Conference about valuation model
14 Dec. 2017	Phone call	Value Trust	Interest result, Special assets, valuation model
14 Dec. 2017	Phone call	STADA Value Trust	Interest result
14 Dec. 2017	Phone call	STADA Value Trust	Business taxes
18 Dec. 2017	Phone call	All	Status call
18 Dec. 2017	Email	Value Trust	Signed valuation report
18 Dec. 2017	Email	All	First Draft Audit Report
18 Dec. 2017	Email	All	Confirmation of the adequacy of the value range and a commitment, to grade a cash compensation and a recurring compensation as adequate if within the range of values
19 Dec. 2017	Frankfurt am Main	All	Meeting of the Management Board and the special committee of the Supervisory board to approve and sign the DPLA and the contract report
21 Dec. 2017	Email/Post	All	Signed version of the Audit Report

Beherrschungs- und Gewinnabführungsvertrag

zwischen

Domination and Profit and Loss Transfer Agreement

by and between

STADA Arzneimittel Aktiengesellschaft,

Stadastraße 2-18, 61118 Bad Vilbel,

eingetragen im Handelsregister des Amtsgerichts Frankfurt am Main (HRB 71290)

registered at the commercial register of the local court Frankfurt am Main (HRB 71290)

– ***STADA*** –

und

and

Nidda Healthcare GmbH,

c/o Intertrust (Deutschland) GmbH, Grüneburgweg 58-62, 60322 Frankfurt am Main,

eingetragen im Handelsregister des Amtsgerichts Frankfurt am Main (HRB 109528)

registered at the commercial register of the local court Frankfurt am Main (HRB 109528)

– ***Nidda Healthcare***–

§ 1
Leitung

(1) STADA unterstellt Nidda Healthcare die Leitung ihrer Gesellschaft ab dem Zeitpunkt der Wirksamkeit dieses Vertrags. Dementsprechend ist Nidda Healthcare berechtigt, dem Vorstand der STADA in Bezug auf die Leitung der STADA sowohl allgemeine als auch auf den Einzelfall bezogene Weisungen zu erteilen. Nidda Healthcare ist ebenfalls berechtigt, Weisungen in Bezug auf die Aufstellung des Jahresabschlusses der STADA zu erteilen.

(2) Der Vorstand der STADA ist verpflichtet, Weisungen der Nidda Healthcare nach § 1 Abs. 1 und in Übereinstimmung mit

§ 1
Managerial Control

(1) STADA agrees that the management of its company shall be under the control of Nidda Healthcare as from the date of the effectiveness of this Agreement. Accordingly, Nidda Healthcare shall be entitled to give instructions to the management board of STADA with respect to the management of STADA in general or on a case by case basis. Nidda Healthcare is also entitled to give instructions with respect to the preparation of the annual accounts of STADA.

(2) The management board of STADA is required to comply with the instructions of Nidda Healthcare as specified

§ 308 AktG zu befolgen.

(3) Nidda Healthcare kann ihre direkten oder indirekten Gesellschafter bevollmächtigen, das ihr zustehende Weisungsrecht in rechtsgeschäftlicher Vertretung auszuüben. STADA ist nur verpflichtet, solche Weisungen direkter oder indirekter Gesellschafter der Nidda Healthcare zu befolgen, nachdem ihr (i) die entsprechende Vollmacht bei erstmaliger Weisung durch eine bevollmächtigte Gesellschaft und (ii) bei ausländischen bevollmächtigten Gesellschaften auch die Vertretungsberechtigung der die Weisung erteilenden Person(en) vorgelegt wurde. Änderungen in Bezug auf erteilte Vollmachten sowie in Bezug auf die Zusammensetzung der Geschäftsführung der bevollmächtigten Gesellschaft(en) hat Nidda Healthcare unverzüglich gegenüber STADA anzuzeigen. Auch im Falle rechtsgeschäftlicher Vertretung besteht die Haftung der Nidda Healthcare nach § 309 AktG i.V.m. § 278 BGB unverändert fort.

(4) Nidda Healthcare kann dem Vorstand der STADA keine Weisungen in Bezug auf die Änderung, Aufrechterhaltung oder Beendigung dieses Vertrags erteilen.

(5) Weisungen bedürfen der Textform nach § 126b BGB oder sind, sofern sie mündlich erteilt werden, unverzüglich in Textform zu bestätigen, sofern der Vorstand dies verlangt.

in § 1 para. 1 and in accordance with § 308 AktG.

(3) Nidda Healthcare may authorize its direct or indirect controlling shareholder to exercise the right of instruction on its behalf as a proxy. STADA is only required to comply with such instructions given by direct or indirect shareholders of Nidda Healthcare after having received (i) the relevant powers of attorney with the first instruction by an authorized entity, and (ii) in case of foreign authorized entities also the power of representation of the person(s) issuing the instruction. Changes in relation to the power of attorney as well as in relation to the composition of the authorized company's management must be reported by Nidda Healthcare to STADA without undue delay. The liability of Nidda Healthcare under § 309 AktG in conjunction with § 278 BGB continues unchanged also in the case of legal representation.

(4) Nidda Healthcare shall not be entitled to give instructions to the management board of STADA pertaining to amending, maintaining, or terminating this agreement.

(5) Any instructions require text form according to § 126b BGB or, if the instructions are given orally, they shall be confirmed in text form without undue delay, if requested by the management board.

§ 2
Gewinnabführung

(1) STADA verpflichtet sich, ihren ganzen Gewinn an Nidda Healthcare abzuführen. Vorbehaltlich der Bildung oder Auflösung von Rücklagen nach § 2 Abs. 2 ist der nach § 301 AktG in dessen jeweils geltender Fassung zulässige Höchstbetrag abzuführen.

(2) STADA kann mit schriftlicher oder in Textform nach § 126b BGB erfolgender Zustimmung der Nidda Healthcare Beträge aus dem Jahresüberschuss in andere Gewinnrücklagen einstellen, soweit dies handelsrechtlich zulässig und bei vernünftiger kaufmännischer Beurteilung wirtschaftlich begründet ist. Während der Vertragslaufzeit gebildete andere Gewinnrücklagen sind auf schriftliches oder in Textform nach § 126b BGB erfolgendes Verlangen der Nidda Healthcare aufzulösen und zum Ausgleich eines Jahresfehlbetrags zu verwenden oder als Gewinn abzuführen. Sonstige Rücklagen oder ein Gewinnvortrag, der aus der Zeit vor der Wirksamkeit dieses Vertrags stammt, dürfen weder als Gewinn abgeführt noch zum Ausgleich eines Jahresfehlbetrages verwendet werden.

(3) Die Verpflichtung zur Abführung des gesamten Gewinns besteht erstmals für das am 1. Januar 2018 beginnende oder dasjenige spätere Geschäftsjahr der STADA, in dem dieser Vertrag nach § 7 Abs. 2 wirksam wird. Die Verpflichtung ist in jedem Fall mit Feststellung des Jahresabschlusses für das betreffende Geschäftsjahr der STADA fällig.

§ 2
Transfer of Profit

(1) STADA undertakes to transfer its entire annual profit (*Gewinnabführung*) to Nidda Healthcare. Subject to establishing or dissolving reserves in accordance with § 2 para. 2, the maximum amount permissible under § 301 AktG, as amended from time to time, shall be transferred.

(2) If and to the extent permissible under commercial law and economically justified by reasonable commercial judgement, STADA may, with the consent of Nidda Healthcare in writing or text form according to § 126b BGB, allocate parts of its annual profit to other profit reserves. Other profit reserves which have been created during the term of this agreement shall be liquidated upon request of Nidda Healthcare in writing or text form according to § 126b BGB and used to compensate any annual deficit for the financial year or be transferred as profit. Other reserves or profits carried forward from the period prior to the term of this agreement may neither be transferred as profit nor be used to compensate for any annual deficit.

(3) The obligation to transfer the annual profit applies for the first time to the entire profits generated in the fiscal year of STADA beginning on January 1, 2018 or to the entire profits of any later fiscal year in which this agreement becomes effective according to § 7 para. 2. In each case, the obligation becomes due with the approval of the respective annual financial state-

ment of STADA.

§ 3
Verlustübernahme

(1) Nidda Healthcare ist nach § 302 Abs. 1 AktG in dessen jeweils geltender Fassung zum Ausgleich eines Jahresfehlbetrags der STADA verpflichtet. Die Vorschrift des § 302 AktG ist in ihrer Gesamtheit in der jeweils geltenden Fassung anzuwenden.

(2) Die Verpflichtung zum Ausgleich des gesamten Jahresfehlbetrags besteht erstmals für das am 1. Januar 2018 beginnende oder dasjenige spätere Geschäftsjahr der STADA, in dem dieser Vertrag nach § 7 Abs. 2 wirksam wird. Die Verpflichtung wird in jedem Fall zum Ende eines Geschäftsjahrs der STADA fällig.

(3) Bei einer Beendigung dieses Vertrags während eines Geschäftsjahrs, insbesondere durch eine Kündigung aus wichtigem Grund, ist Nidda Healthcare zur Übernahme desjenigen Fehlbetrags der STADA, wie er sich aus einer auf den Tag des Wirksamwerdens der Beendigung zu erstellenden Stichtagsbilanz ergibt, verpflichtet.

§ 3
Balancing of Losses

(1) Nidda Healthcare is obliged pursuant to § 302 para. 1 AktG, as amended from time to time, to balance each year any annual net loss of STADA that would otherwise arise during the term of this agreement. The provision of § 302 AktG applies in its entirety, as amended from time to time.

(2) The obligation to balance any losses applies for the first time to the entire losses generated in the fiscal year of STADA beginning on January 1, 2018 or to the entire losses of any later fiscal year in which this agreement becomes effective according to § 7 para. 2. In each case, the obligation becomes due at the end of the respective fiscal year of STADA.

(3) In the event this agreement is terminated during a fiscal year, and specifically in the event of termination for cause (*wichtiger Grund*), Nidda Healthcare is required to balance the losses of STADA as shown in the balance sheet to be drawn up as of the date of the effectiveness of the termination in accordance with applicable accounting rules.

§ 4
Ausgleichszahlung

(1) Nidda Healthcare verpflichtet sich, den außenstehenden Aktionären der STADA für die Dauer dieses Vertrags als angemessenen Ausgleich nach § 304 Abs. 1 AktG die Zahlung einer wiederkehrenden

§ 4
Recurring Compensation Payment

(1) Nidda Healthcare undertakes to pay to outside shareholders of STADA as adequate compensation pursuant to § 304 para. 1 AktG a recurring cash compensation (***Recurring Compensation***

Geldleistung (***Ausgleichszahlung***) zu zahlen.

(2) Die Ausgleichszahlung beträgt für jedes volle Geschäftsjahr der STADA für jede nennwertlose auf den Namen lautende Stückaktie der STADA mit einem rechnerischen Anteil am Grundkapital von EUR 2,60 (jede einzelne eine ***STADA Aktie***, insgesamt die ***STADA Aktien***) brutto EUR 3,82 (***Bruttoausgleichsbetrag***), abzüglich eines etwaigen Betrags für Körperschaftsteuer und Solidaritätszuschlag in Höhe des für diese Steuern für das jeweilige Geschäftsjahr jeweils geltenden Steuersatzes (***Nettoausgleichsbetrag***), wobei dieser Abzug nur auf den Teil des Bruttoausgleichsbetrags, der sich auf die der deutscher Körperschaftsteuer unterliegenden Gewinne bezieht, vorzunehmen ist. Am Tag des Abschlusses dieses Vertrags beträgt die Körperschaftsteuer 15 % und der Solidaritätszuschlag 5,5 %. Dementsprechend ergibt sich am Tag des Abschlusses dieses Vertrags nach kaufmännischer Rundung auf einen vollen Cent-Betrag eine Ausgleichszahlung in Höhe von EUR 3,53 je STADA Aktie für ein volles Geschäftsjahr der STADA. Klarstellend wird vereinbart, dass, soweit gesetzlich vorgeschrieben, anfallende Quellensteuern (etwa Kapitalertragsteuer zuzüglich Solidaritätszuschlag) von dem Nettoausgleichsbetrag einbehalten werden.

Payment) (*Ausgleich*) as long as this agreement is in effect.

(2) The Recurring Compensation Payment payable for each full fiscal year of STADA with respect to each no-par value registered share of STADA (*Namensaktie ohne Nennbetrag*), each with a notional value of EUR 2.60 (each a ***STADA Share***, together the ***STADA Shares***), shall be equal to EUR 3.82 gross (***Gross Compensation Amount***), less any amount of corporate income tax (*Körperschaftsteuer*) and solidarity surcharge (*Solidaritätszuschlag*) at the prevailing rate of these taxes for the relevant fiscal year (***Net Compensation Amount***), provided that this deduction is to be effected only on such portion of the Gross Compensation Amount that relates to profits subject to German corporate income tax. As of the date of the execution of this agreement, the corporate income tax amounted to 15% and the solidary surcharge amounted to 5.5%. When applied to the Gross Compensation Amount which is subject to German corporate income tax and rounded to a full cent amount in accordance with commercial practices and then deducted, the resulting amount as of the date of the execution of this agreement is a Recurring Compensation Payment of EUR 3.53 for each STADA Share for an entire fiscal year of STADA. For the avoidance of doubt, it is agreed that any withholding tax (such as capital gains tax plus solidarity surcharge thereon) shall be withheld from the Net Compensation Amount to the extent required by statutory law.

(3) Die Ausgleichszahlung ist am dritten Bankarbeitstag (Frankfurt am Main) nach der ordentlichen Hauptversammlung der STADA für das jeweils abgelaufene Geschäftsjahr, jedoch spätestens acht Monate nach Ablauf des jeweiligen Geschäftsjahrs fällig.

(3) The Recurring Compensation Payment is due on the third banking day (Frankfurt am Main) following the ordinary general shareholders' meeting of STADA for the respective preceding fiscal year, but in any event within eight months following expiration of this fiscal year.

(4) Die Ausgleichszahlung wird erstmals für dasjenige Geschäftsjahr der STADA, in dem dieser Vertrag nach § 7 Abs. 2 wirksam wird, gewährt und wird gemäß § 4 Abs. 3 erstmals nach der ordentlichen Hauptversammlung der STADA im darauffolgenden Jahr gezahlt.

(4) The Recurring Compensation Payment is first granted for the fiscal year of STADA in which this agreement becomes effective according to § 7 para. 2, and will be paid for the first time in accordance with § 4 para. 3 after the ordinary general shareholders' meeting of STADA in the following year.

(5) Falls dieser Vertrag während eines Geschäftsjahrs der STADA endet oder STADA während der Laufzeit dieses Vertrags ein Rumpfgeschäftsjahr bildet, vermindert sich der Bruttoausgleichsbetrag für das betroffene Geschäftsjahr zeitanteilig.

(5) If this agreement ends during a fiscal year of STADA or if STADA establishes a short fiscal year (*Rumpfgeschäftsjahr*) during the term of this agreement, the Gross Compensation Amount is reduced to *pro rata temporis* for the relevant fiscal year.

(6) Falls das Grundkapital der STADA aus Gesellschaftsmitteln gegen Ausgabe neuer Aktien erhöht wird, vermindert sich der Bruttoausgleichsbetrag je STADA Aktie in dem Maße, dass der Gesamtbetrag des Bruttoausgleichsbetrags unverändert bleibt. Falls das Grundkapital der STADA durch Ausgabe neuer Aktien gegen Bar- und/oder Sacheinlagen erhöht wird, gelten die Rechte aus diesem § 4 auch für die von außenstehenden Aktionären bezogenen Aktien aus einer solchen Kapitalerhöhung. Der Beginn der Berechtigung aus den neu ausgegebenen Aktien nach diesem § 4 korrespondiert mit dem von STADA bei Ausgabe der neuen Aktien festgesetzten Zeitpunkt zur Gewinn-

(6) If the share capital of STADA is increased from own funds of STADA in exchange for the issuance of new shares, the Gross Compensation Amount per STADA Share is reduced to such extent that the aggregate amount of the Gross Compensation Amount remains unchanged. If the share capital is increased by the issuance of new shares against cash contributions and/or contributions in kind, the rights under this § 4 also apply for the shares subscribed to by outside shareholders in such capital increase. The beginning of the entitlement to rights under this § 4 in respect of the newly issued shares follows the begin-

anteilsberechtigung.

ning of entitlement to dividends as set out by STADA at the time of issuance of the new shares.

(7) Falls der Ausgleichszahlung nach § 4 Abs. 1 für jede STADA Aktie durch eine rechtskräftige Entscheidung in einem Spruchverfahren oder in einem gerichtlich protokollierten Vergleich zur Beendigung eines Spruchverfahrens erhöht wird, können auch die bereits nach Maßgabe des § 5 abgefundenen Aktionäre eine entsprechende Ergänzung der von ihnen bereits erhaltenen Ausgleichszahlung verlangen, soweit gesetzlich vorgesehen.

(7) If the Recurring Compensation Payment pursuant to § 4 para. 1 is increased for each STADA Share by a legally binding court decision in appraisal proceedings (*Spruchverfahren*) or a judicially recorded settlement to end the appraisal proceedings (*gerichtlich protokollierter Vergleich*), the outside Shareholders, even if they have already been compensated according to clause § 5, are entitled to demand a corresponding additional payment to the Recurring Compensation Payment to the extent required by the applicable statutory law.

§ 5
Abfindung

(1) Nidda Healthcare verpflichtet sich, auf Verlangen eines jeden außenstehenden Aktionärs der STADA dessen STADA Aktien gegen eine Barabfindung (***Abfindung***) in Höhe von EUR 74,40 je STADA Aktie zu erwerben.

(2) Die Verpflichtung der Nidda Healthcare zum Erwerb der STADA Aktien ist befristet. Die Frist endet zwei Monate nach dem Tag, an dem die Eintragung des Bestehens dieses Vertrags im Handelsregister des Sitzes der STADA nach § 10 HGB bekannt gemacht worden ist. Eine Verlängerung der Frist nach § 305 Abs. 4 Satz 3 AktG wegen eines Antrags auf Bestimmung der angemessenen Ausgleichszahlung oder der angemessenen Abfin-

§ 5
Compensation

(1) Nidda Healthcare undertakes upon demand of any outside shareholder of STADA to purchase the STADA Shares tendered by such shareholder in exchange for a cash compensation (***Compensation***) (*Abfindung*) in the amount of EUR 74.40 for each STADA Share.

(2) The obligation of Nidda Healthcare to acquire STADA Shares is limited in time. The time limitation period ends two months after the date on which the entry of the existence of this agreement has been published in the commercial register at the registered seat of STADA pursuant to § 10 HGB. An extension of the time limitation period pursuant to § 305 para. 4 sent. 3 AktG as a result of a filing for determination

dung durch das in § 2 SpruchG bestimmte Gericht bleibt unberührt; in diesem Fall endet die Frist zwei Monate nach dem Tag, an dem die Entscheidung über den zuletzt beschiedenen Antrag im Bundesanzeiger bekannt gemacht worden ist.

of the adequate Recurring Compensation Payment or the adequate Compensation by a court pursuant to § 2 SpruchG remains unaffected; in this event, the time limitation period shall expire two months after the date on which the decision on the last motion disposed has been published in the Federal Gazette (*Bundesanzeiger*).

(3) Falls bis zum Ablauf der in § 5 Abs. 2 genannten Frist das Grundkapital der STADA aus Gesellschaftsmitteln gegen Ausgabe neuer Aktien erhöht wird, vermindert sich die Abfindung je STADA Aktie in dem Maße, dass der Gesamtbetrag der Abfindung unverändert bleibt. Falls das Grundkapital der STADA bis zum Ablauf der in § 5 Abs. 2 genannten Frist durch Ausgabe neuer Aktien gegen Bar- und/oder Sacheinlagen erhöht wird, gelten die Rechte aus diesem § 5 auch für die von außenstehenden Aktionären bezogenen Aktien aus der Kapitalerhöhung.

(3) If the share capital of STADA is increased from own funds of STADA in exchange for the issuance of new shares prior to the expiration of the time limitation period set forth in § 5 para. 2, the Compensation for each STADA Share is reduced to such extent that the aggregate amount of the Compensation remains unchanged. If the share capital of STADA is increased by the issuance of new shares against cash contributions and/or contributions in kind prior to the expiration of the time limitation period set forth in § 5 para. 2, the rights under this § 5 also apply for the shares subscribed to by outside shareholders in such capital increase.

(4) Die Übertragung der STADA Aktien gegen Abfindung ist für die außenstehenden Aktionäre der STADA kostenfrei, sofern sie über ein inländisches Wertpapierdepot verfügen.

(4) The transfer of STADA Shares in exchange for Compensation is without charge to outside shareholders of STADA, provided that they have a domestic securities deposit account.

(5) Falls die Abfindung nach § 5 Abs. 1 für jede STADA Aktie durch eine rechtskräftige Entscheidung in einem Spruchverfahren oder in einem gerichtlich protokollierten Vergleich zur Beendigung eines Spruchverfahrens erhöht wird, wird Nidda Healthcare die von außenstehenden Aktionären angebotenen STADA Aktien

(5) If the Compensation pursuant to § 5 para. 2 is increased for each STADA Share by a legally binding court decision in an appraisal proceeding (*Spruchverfahren*) or a judicially recorded settlement to end the appraisal proceedings (*gerichtlich protokollierter Vergleich*), Nidda Healthcare will ac-

gegen Zahlung der erhöhten Abfindung erwerben, soweit gesetzlich vorgesehen.

(6) Falls dieser Vertrag durch Kündigung der STADA oder Nidda Healthcare zu einem Zeitpunkt endet, zu dem die Frist nach § 5 Abs. 2 für den Erwerb der STADA Aktien durch Nidda Healthcare gegen Abfindung nach § 5 Abs. 1 abgelaufen ist, hat jeder außenstehende Aktionär der STADA das Recht, seine STADA Aktien, die er im Zeitpunkt der Beendigung dieses Vertrags hält, Nidda Healthcare gegen Abfindung nach § 5 Abs. 1 anzubieten und Nidda Healthcare ist verpflichtet, die von dem außenstehenden Aktionär angebotenen STADA Aktien zu erwerben. Falls die Abfindung nach § 5 Abs. 1 für jede STADA Aktie durch eine rechtskräftige Entscheidung in einem Spruchverfahren oder durch einen gerichtlich protokollierten Vergleich zur Abwendung oder Beendigung eines Spruchverfahrens erhöht wird, wird Nidda Healthcare die von dem außenstehenden Aktionär angebotenen STADA Aktien gegen Zahlung der im Spruchverfahren oder im gerichtlich protokollierten Vergleich festgesetzten Abfindung erwerben. Das Recht unter diesem § 5 Abs. 6 ist befristet. Die Frist endet zwei Monate nach dem Tag, an dem die Eintragung der Beendigung dieses Vertrags im Handelsregister des Sitzes der STADA nach § 10 HGB bekannt gemacht worden ist. § 5 Abs. 3 und § 5 Abs. 4 gelten entsprechend.

quire the STADA Shares tendered by the outside shareholders against payment of the increased Compensation to the extent required by applicable statutory law.

(6) If this agreement ends upon termination by STADA or Nidda Healthcare at a time when the period pursuant to § 5 para. 2 to tender the STADA Shares to Nidda Healthcare against the Compensation pursuant to § 5 para. 1 has expired, every outside shareholder of STADA is entitled to tender the STADA Shares held at the time of termination of this agreement to Nidda Healthcare against the Compensation pursuant to § 5 para. 1 and Nidda Healthcare shall be obliged to acquire the STADA Shares tendered by the outside shareholder. If the Compensation pursuant to § 5 para. 1 for each STADA Share is increased as a result of non-appealable appraisal proceedings (*Spruchverfahren*) or as a result of a judicially recorded settlement (*gerichtlich protokollierter Vergleich*) in order to avert or terminate appraisal proceedings (*Spruchverfahren*), Nidda Healthcare will acquire the STADA Shares tendered by the outside shareholders against payment of the Compensation for each STADA Share as determined in the appraisal proceedings or judicially recorded settlement (*gerichtlich protokollierter Vergleich*). The right of disposal as set forth in this § 5 para. 6 is limited in time. The time limitation periods ends two months after the date on which the registration of the termination of this agreement has been published in the commercial register at the registered seat of STADA

pursuant to § 10 HGB. § 5 para. 3 and § 5 para. 4 apply accordingly.

§ 6
Auskunftsrecht

(1) Nidda Healthcare ist berechtigt, Bücher und Schriften der STADA jederzeit einzusehen.

(2) Der Vorstand der STADA ist verpflichtet, Nidda Healthcare jederzeit alle verlangten Auskünfte über sämtliche Angelegenheiten der STADA zu geben.

(3) Unbeschadet der vorstehenden Rechte ist STADA verpflichtet, Nidda Healthcare über die geschäftliche Entwicklung, insbesondere über wesentliche Geschäftsvorfälle, laufend zu informieren.

(4) Solange es sich bei STADA um eine börsennotierte Aktiengesellschaft handelt, sind die Parteien verpflichtet, die kapitalmarktrechtlichen Vorschriften, insbesondere die Marktmissbrauchsverordnung (EU) Nr. 596/2014, einzuhalten.

§ 6
Right to Information

(1) Nidda Healthcare is entitled to inspect the books and records of STADA at any time.

(2) The management board of STADA is obliged to supply Nidda Healthcare at any time with all requested information on all matters relating to STADA.

(3) Notwithstanding the rights above, STADA is required to keep Nidda Healthcare continuously informed on the business development and, specifically, on material transactions.

(4) As long as STADA is a publicly listed stock corporation the Parties are obliged to comply with the capital market law requirements, in particular with Market Abuse Regulation (EU) No 596/2014.

§ 7
Wirksamwerden und Dauer des Vertrags

(1) Dieser Vertrag bedarf zu seiner Wirksamkeit der Zustimmung der Hauptversammlung der STADA und der Gesellschafterversammlung der Nidda Healthcare.

(2) Dieser Vertrag wird wirksam, sobald sein Bestehen in das Handelsregister des Sitzes der STADA eingetragen worden ist.

(3) Dieser Vertrag wird auf unbestimmte Zeit geschlossen. Nidda Healthcare kann die-

§ 7
Effectiveness and Term of this Agreement

(1) This agreement requires for its effectiveness the consent of the general shareholders' meeting of STADA and the shareholders' meeting of Nidda Healthcare.

(2) This agreement becomes effective upon registration of its existence in the commercial register at the registered seat of STADA.

(3) This agreement is concluded for an indefinite period. Nidda Healthcare

sen Vertrag mit einer Frist von drei Monaten zum Ablauf eines Geschäftsjahres der STADA ordentlich kündigen, jedoch erstmals zum Ende des Geschäftsjahrs der STADA, das mindestens fünf Zeitjahre (60 Monate) nach Beginn des Geschäftsjahrs, in dem dieser Vertrag wirksam geworden ist, endet. Das ordentliche Kündigungsrecht für STADA ist ausgeschlossen.

may terminate this agreement for convenience with a notice period of three months prior to the end of the fiscal year of STADA, but not earlier than as of the end of the fiscal year of STADA that ends at least five years (*Zeitjahre*) (60 months) after the beginning of the fiscal year in which this agreement has become effective. The termination for convenience for STADA is excluded.

(4) Jede Partei kann diesen Vertrag aus wichtigem Grund ohne Einhaltung einer Kündigungsfrist kündigen. Falls Nidda Healthcare nach diesem Vertrag bestehende Zahlungsverpflichtungen nicht erfüllt, soll STADA die Nidda Healthcare hiervon unterrichten und ihr einen Monat Zeit zur Erfüllung geben, bevor STADA diesen Vertrag aus wichtigem Grund kündigt. § 297 Abs. 1 Satz 2 AktG bleibt unberührt.

(4) Each party may terminate this agreement for cause (*aus wichtigem Grund*) without compliance with any notice period. If Nidda Healthcare fails to perform any of its payment obligations under this agreement, STADA shall give notice to Nidda Healthcare and grant a period of one month to cure the default before terminating this agreement for cause. § 297 para. 1 sent. 2 AktG remains unaffected.

(5) Insbesondere sind die Vertragsparteien zur Kündigung aus wichtigem Grund berechtigt, sofern:

(a) Nidda Healthcare wegen einer Veräußerung der STADA Aktien, einer Einbringung der STADA Aktien in eine andere Gesellschaft oder eines anderen Grunds in der Hauptversammlung der STADA nicht mehr die Mehrheit der Stimmrechte zusteht;

(b) ein Rechtsformwechsel, eine Verschmelzung, Spaltung oder Liquidation einer der Vertragsparteien stattfindet;

(c) ein Umstand vorliegt, der die Beendigung der steuerlichen Organschaft

(5) The parties to this agreement are entitled to terminate this agreement in particular, but without limitation to, if one of the following events occurs:

(a) Nidda Healthcare ceases to hold the majority of the voting rights in the general shareholders' meeting of STADA as a result of a disposal of STADA Shares, or a contribution of STADA Shares to another entity, or for another reason;

(b) a change in legal form, merger, demerger or liquidation of one of the parties to this agreement;

(c) any other event which results in the termination of the fiscal unity be-zwischen Nidda Healthcare und STADA zur Folge hat;

(d) ein anderer wichtiger Grund in steuerrechtlichem Sinne für die Beendigung dieses Vertrags gegeben ist.

(6) Im Fall einer fristlosen Kündigung aus wichtigem Grund endet dieser Vertrag mit dem Ablauf des in der Kündigung genannten Tags, frühestens jedoch mit Ablauf desjenigen Tags, an dem die Kündigung zugeht.

(7) Endet dieser Vertrag, hat Nidda Healthcare den Gläubigern der STADA nach Maßgabe des § 303 AktG Sicherheit zu leisten.

(8) Die Kündigung muss schriftlich erfolgen.

§ 8
Schlussbestimmungen

(1) Sollte eine Bestimmung dieses Vertrags ganz oder teilweise unwirksam, undurchführbar oder nicht durchsetzbar sein oder werden, ist davon die Gültigkeit, Wirksamkeit und Durchsetzbarkeit der übrigen Bestimmungen nicht berührt. Anstelle der unwirksamen, undurchführbaren oder nicht durchsetzbaren Bestimmung gilt eine wirksam, durchführbare und durchsetzbare Bestimmung, die dem wirtschaftlich Gewollten und dem mit der unwirksamen, undurchführbaren oder nicht durchsetzbaren Bestimmung Bezweckten am nächsten kommt. Entsprechendes gilt für den Fall einer unbeabsichtigten Lücke dieses Vertrags. Die Parteien vereinbaren, dass durch das Vorstehende nicht nur eine Beweislastumkehr eintritt, sondern auch die Anwend-

tween Nidda Healthcare and STADA; or

(d) any other event which qualifies as a cause for the termination of this agreement for tax purposes.

(6) In the event of termination for cause without notice, this agreement lapses at the end of the date stated in the notice of termination, provided that this date is no earlier than the day on which notice of termination is served.

(7) If the agreement is terminated, Nidda Healthcare must furnish security to the creditors of STADA under the conditions set forth in § 303 AktG.

(8) Any notice of termination must be in writing.

§ 8
Miscellaneous

(1) Should any provision of this agreement be or become invalid, ineffective or unenforceable as a whole or in part, the validity, effectiveness and enforceability of the remaining provisions shall not be affected thereby. Any such invalid, ineffective or unenforceable provision shall be deemed replaced by such valid, effective and enforceable provision as comes closest to the economic intent and the purpose of such invalid, ineffective or unenforceable provision. The aforesaid shall apply analogously to any unintended gap in this agreement. The parties agree that the aforesaid shall not only reverse the burden of proof but that the application of § 139 BGB shall be excluded in its entirety as well.

barkeit des § 139 BGB ausgeschlossen ist.

(2) Zur Auslegung dieses Vertrags sind die ertragsteuerlichen Bestimmungen für die Anerkennung einer Organschaft, insbesondere §§ 14-19 KStG in deren jeweils geltender Fassung, zu berücksichtigen.

(2) When construing this agreement, the income tax provisions for recognition of a fiscal unity, especially §§ 14-19 KStG, as amended from time to time, shall be taken into account.

(3) Die Parteien erklären ausdrücklich, dass dieser Vertrag keine rechtliche Einheit (§ 139 BGB) mit anderen Rechtsgeschäften oder Vereinbarungen, die zwischen den Parteien getätigt oder abgeschlossen wurden oder werden, bildet oder bilden soll.

(3) The parties explicitly declare that this agreement is not intended to form a legal unity (§ 139 BGB) with other legal transactions or agreements which are or will be concluded and/or effected between the parties.

(4) Änderungen und Ergänzungen dieses Vertrags bedürfen zu ihrer Wirksamkeit der Schriftform. Dies gilt insbesondere auch für diese Schriftformklausel. Im Übrigen gilt § 295 AktG.

(4) Amendments and supplements to this agreement must be in writing to be effective. This specifically applies to this clause requiring written form as well. § 295 AktG applies.

(5) Soweit rechtlich zulässig, ist Frankfurt am Main Erfüllungsort für die beiderseitigen Verpflichtungen aus diesem Vertrag sowie ausschließlicher Gerichtsstand.

(5) As far as legally permissible, Frankfurt am Main is the place of performance for reciprocal obligations and the exclusive legal venue.

(6) Nur der deutsche Text dieses Vertrags ist rechtsverbindlich. Der englische Text ist nicht Teil des Vertrags und nur eine unverbindliche Übersetzung.

(6) Only the German text of this agreement is legally binding. The English text is not part of this agreement and a non-binding convenience translation only.

STADA Arzneimittel Aktiengesellschaft

Der Vorstand / The Executive Board

Bad Vilbel, den 19. Dezember 2017 / the 19 December 2017

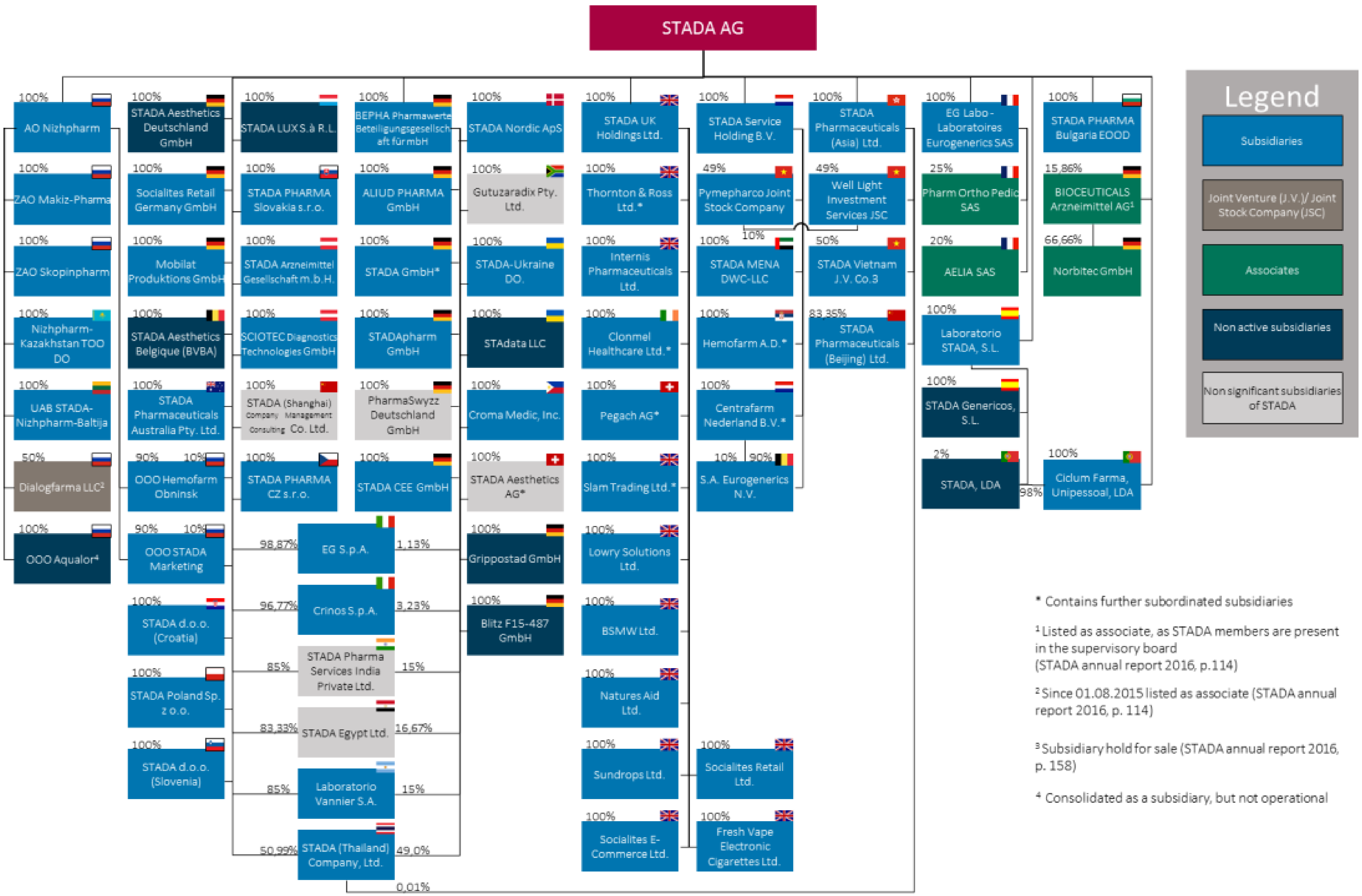
Dr. Claudio Albrecht	Mark Keatley	Dr. Barthold Piening
Vorstandsvorsitzender *Chairman of the Executive Board/CEO*	Vorstand Finanzen *Chief Financial Officer*	Vorstand Produktion & Entwicklung *Chief Technical Officer*

Nidda Healthcare GmbH

Die Geschäftsführung / The Management

Frankfurt am Main, den 19. Dezember 2017 / the 19 December 2017

Andreas Grundhöfer
Geschäftsführer
Managing Director



* Contains further subordinated subsidiaries

[1] Listed as associate, as STADA members are present in the supervisory board (STADA annual report 2016, p.114)

[2] Since 01.08.2015 listed as associate (STADA annual report 2016, p. 114)

[3] Subsidiary hold for sale (STADA annual report 2016, p. 158)

[4] Consolidated as a subsidiary, but not operational

Quelle: Unternehmensinformationen; Darstellung des Bewertungsgutachters.

[Translator's notes are in square brackets]

General Engagement Terms
for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [*Translators Note: The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party

b) examination of tax assessments in relation to the taxes referred to in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)

e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;

b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;

c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and

d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.