

Convenience translation
(only the original German version is
binding)

Financial Statements as of March 31,
2016 and Management Report
for the Financial Year 2015/16
of

Bavaria Electrodes GmbH
Röthenbach a.d. Pegnitz

UNQUALIFIED AUDIT OPINION

We have audited the annual financial statements – comprising the balance sheet, the income statement, and the notes to the financial statements – together with the bookkeeping system, and the management report of Bavaria Electrodes GmbH, Röthenbach a.d. Pegnitz, for the financial year from 1 April 2015 to 31 March 2016. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German Commercial Law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 12 May 2016

RSM Altavis GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Roller
Wirtschaftsprüfer
(Certified Public Auditor)

Schirmer
Wirtschaftsprüferin
(Certified Public Auditor)

BAVARIA ELECTRODES GMBH
RÖTHENBACH A.D. PEGNITZ
BALANCE SHEET
AS OF MARCH 31, 2016

<u>ASSETS</u>	<u>31.03.2016</u> EUR	<u>31.03.2015</u> EUR	<u>EQUITY AND LIABILITIES</u>	<u>31.03.2016</u> EUR	<u>31.03.2015</u> EUR
A. FIXED ASSETS					
I. Tangible Assets	9,402.00	24,354.00	A. EQUITY		
1. Technical equipment and machines	33,301.00	37,900.00	I. Subscribed capital	100,000.00	100,000.00
2. Other equipment, factory and office equipment	42,703.00	62,254.00	II. Retained profits	2,410,470.56	2,179,663.60
			III. Net profit	138,059.28	230,806.96
				2,648,529.84	2,510,470.56
B. CURRENT ASSETS					
I. Inventories	520,478.38	540,694.86	B. ACCRUALS		
1. Raw materials and supplies			1. Accruals for pensions and similar obligations	46,340.00	50,007.00
II. Receivables and other assets	1,974.64	2,570.66	2. Other accruals	303,230.37	267,646.64
1. Trade receivables	4,018,321.68	3,374,682.01		349,570.37	317,653.64
2. Receivables from affiliated companies	119,593.79	555,745.88	C. LIABILITIES		
3. Other assets	4,139,890.11	3,932,998.55	1. Trade payables	788,664.52	1,043,946.77
			2. Payables to affiliated companies	1,201,928.33	655,790.24
III. Cash	300,697.59	16,136.80	3. Other Liabilities	28,173.26	29,830.44
			- thereof for taxes: EUR 28,119.34 (p.y.: EUR 28,602.57)	2,018,766.11	1,729,567.45
	13,097.24	5,607.44			
C. PREPAID EXPENSES				5,016,866.32	4,557,691.65
	5,016,866.32	4,557,691.65			

BAVARIA ELECTRODES GMBH
RÖTHENBACH A.D. PEGNITZ
INCOME STATEMENT
FOR THE PERIOD FROM 1 APRIL 2015 TO 31 MARCH 2016

	<u>2015/16</u> EUR	<u>2014/15</u> EUR
1. Revenues	12,329,704.92	12,564,150.97
2. Other income	719,938.69	727,349.24
3. Cost of sales	-5,521,483.78	-6,047,642.86
4. Personnel expenses	-3,393,941.67	-3,413,658.40
a) Wages and salaries	-732,205.86	-723,530.93
b) Expenses for social security, pension and other benefits	-4,126,147.53	-4,137,189.33
5. Amortisation and depreciation	-35,970.66	-46,673.91
a) on intangible fixed assets	-3,117,209.87	-2,811,505.34
6. Other operating expenses	248,831.77	248,488.77
7. Operating result	0.00	8,540.00
8. Other interest and similar income	-2,215.00	-2,373.00
9. Interest and similar expenses - thereof from compounding: EUR 2.215,00 (p.y.: EUR 2.300,00)	-2,215.00	6,167.00
10. Financial result	246,616.77	254,655.77
11. Result from ordinary activities	-108,557.49	-23,848.81
12. Income taxes	138,059.28	230,806.96
13. Net income for the year	<u>138,059.28</u>	<u>230,806.96</u>

Bavaria Electrodes GmbH, Roethenbach a. d. Pegnitz**Notes to the Annual Financial Statements for the Financial Year from 01 April 2015
to 31 March 2016****A. General Information**

The annual financial statements of Bavaria Electrodes GmbH were prepared in accordance with the regulations of the German Commercial Code (HGB) and the Limited Liability Company Act (GmbHG).

For the income statement the total cost method according to § 275 para. 2 HGB has been chosen.

The company is a medium-sized company according to § 267 para. 2 HGB.

B. Accounting policies

The accounting and valuation policies applied in the previous year were retained. The accounting and valuation of items in the balance sheet and income statement are based on the going concern assumption according to § 252 sec. 1 Nr. 2 HGB. The **fixed assets** acquired from the insolvency administrator of the Conradt Group, Dr. Pöhlmann, in August 2004 are valued at the acquisition costs, reduced by the regular straight-line depreciation assuming a remaining life of assets to be seven years for plant and machinery and ten years for building.

Newly acquired intangible assets and fixed assets are valued at the acquisition or production costs reduced by the straight-line depreciation. Assets manufactured in-house are valued according to the production costs considering adequate parts of the required general and administrative costs. Depreciation is done according to the current official tax depreciation tables.

Low-value assets with product related acquisition costs of up to EUR 150.00 are depreciated completely in the year of acquisition and shown in the asset table as disposal. Fixed assets with acquisition costs between EUR 150.00 to EUR 1,000.00 are accumulated in a pool item. Depreciation is done in the year of purchase and the following four years. It is depreciated in the year it was recorded and the following four years and hence reducing profits.

Raw materials, supplies and operating materials are valued at their acquisition costs including the incidental acquisition expenses taking into account the lower of cost or market.

Accounts receivable and other assets are valued at their nominal value.

Cash on hand and bank balances are measured at nominal value.

The **prepaid expenses** relate to payments made before the reporting date, which represent expenses for a certain period after that date.

The **accruals for pensions and similar rights** are valued according to the projected-unit-credit method applying the tables 2005 G of Klaus Heubeck. An actuarial interest rate of 4,25 % and a pensions dynamic of 1,50 % are assumed. § 253 Sec. 2 sentence 1 and sec. 6 HGB were applied, using the average discount rate of the past 10 years. Consequently, the dividend payout restriction amounts to kEUR 4.

Tax accruals and other accruals to cover any risk and expected/uncertain obligations are accounted in an amount required for the settlement on the basis of a reasonable commercial assessment and are recognized in consideration of the anticipated cost and price increase in the future. Accruals with a remaining term of more than one year are discounted using the average market interest rate of the past seven years, according to their remaining maturities as published by Deutsche Bundesbank.

Liabilities are accounted for in the balance sheet according to their settlement amount. All liabilities are short-term.

Deferred taxes

For discrepancies between the commercial valuation on the one hand and the tax base of assets, debts and accrued and deferred items which can be expected to be settled in later financial years, according to § 274 HGB [German Commercial Code], an overall tax burden resulting from these differences shall be shown in the balance sheet as deferred tax liabilities. An overall tax relief resulting from these differences can be shown in the balance sheet as deferred tax assets. Deferred taxes are valued with a combined tax rate of 27.025 %. This tax rate comprises corporation tax, business tax and solidarity tax. By exercising the option to capitalize deferred taxes no deferred tax assets are shown in the balance sheet.

C. Comments on the balance sheet

Fixed assets

The development of the individual items of the fixed assets is stated in asset table attached to these notes.

Receivables and other assets

The receivables and other assets have a residual maturity of up to one year in fiscal year as well as in the previous year. The receivables against affiliated companies relate to receivables from supplies and services.

Deferred taxes

Deferred taxes on pension accruals are not capitalized, in accordance with § 274 sec. 1 Sentence 2 of the HGB [German Commercial Code]. Deferred taxes are valued with a tax rate of 27.025 %.

Other reserves and accrued liabilities

The accrued liabilities mainly include accruals for personnel accruals in the amount of kEUR 244 (p.y.: kEUR 208), as well as outstanding invoices in the amount of kEUR 11 (p.y.: kEUR 38).

Payables due to affiliated companies

All liabilities have residual maturity of up to one year. Payables to affiliated companies are payables from supplies and services.

D. Comments on the income statement

Other operating income

The other operating income includes income of kEUR 50 (p.y.: kEUR 53) relating to other periods.

Taxes on income

Taxes on income are related to trade tax (kEUR 28) and corporation tax and solidarity surcharge in the amount of kEUR 40. In addition, tax payments for previous years in the amount of kEUR 41 are included.

E. Other disclosures**Contingencies, Guarantees**

As at March 31, 2016 no contingencies or guarantees exist. Financial obligations for rent and leasing of equipment amount to kEUR 749. This is all due to affiliated companies.

Number of employees:

Blue-collar workers	86
White-collar workers	<u>16</u>
Total	102

Comments on the consolidated accounts

The annual financial statements of the company will be included in the consolidated accounts of Graphite International B. V., Rotterdam, Netherlands, which is a subsidiary of Graphite India Ltd., Kolkata, India. The consolidated accounts of Graphite India Ltd., Kolkata, India, the ultimate parent company, are published in India at National Stock Exchange and Bombay Stock Exchange in Bombay.

Management

In the financial year 2015/2016, management was carried out by:

Makarand Bhalchandra Gadgil, Nasik, India, Bachelor of Technology / Master of Business Administration
 Adrian Nikolov Bojilov, Röthenbach / Pegnitz, Graduate Economist
 Nitin Shridharrao Deshpande, Nasik, India, Graduate Mechanical Engineer

The company did not pay any remuneration to the managing directors.

Proposed appropriation of results

The net profit of the financial year and the retained profit shall be carried forward onto new account.

Röthenbach a. d. Pegnitz, 6 May 2016

M.B. Gadgil

A.N. Bojilov

N.S. Deshpande

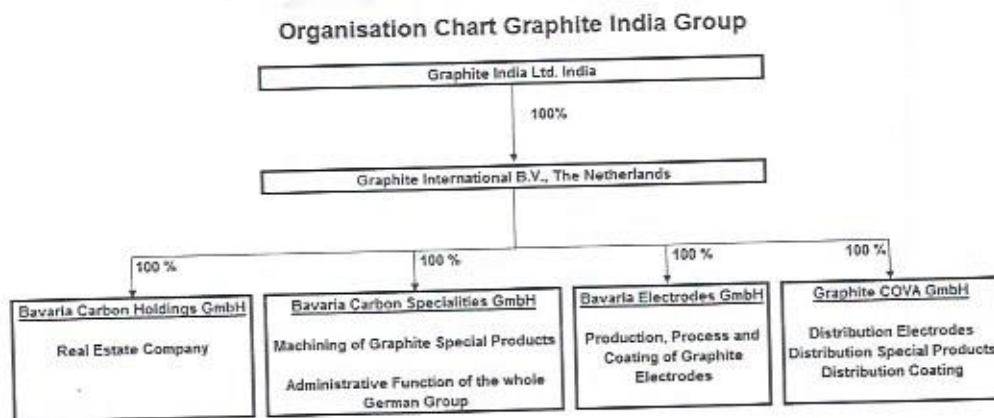
Bavaria Electrodes GmbH
Röthenbach an der Pegnitz
Management Report for the business year
from 1. April 2015 until 31. March 2016

Business Model of the Company

The main business of the Company is to manufacture Graphite Electrodes, Speciality Products, Electrode Coating Services and other Miscellaneous Carbon and Graphite Products.

Graphite Electrode is used in electric arc furnace (EAF) based steel mills for conducting current and is a consumable item for the steel industry.

Group structure



Bavaria Electrodes GmbH is a wholly owned subsidiary of the Graphite International BV, the Netherlands, which is a wholly owned subsidiary of Graphite India Ltd. India. Bavaria Electrodes GmbH deals with only production of Graphite Electrodes, Speciality products, Electrodes Coating services and misc. Carbon and Graphite Products. The selling of these goods is only done by fellow group company Graphite Cova GmbH.

The company is located in Grünthal 1 - 6, D-90552 Röthenbach an der Pegnitz, Germany.

a) Business- and Market Conditions

Lower utilization of Steel capacities continued in 2015 lead to over capacities of Electrodes. Lower demand of electrodes has led to fierce competition among electrodes manufacturers resulting in drastic reduction in price. The Electrodes manufacturers have started adjusting capacities by closing down high cost / inefficient manufacturing facilities which should result in stabilisation in electrode price.

b) Research and Development

Graphite India Ltd. pursues research and development activities on an on-going basis at its in-house research and development centre engaged in the innovation of improved products and processes in the field of Graphite and Carbon. R & D initiatives are in areas of raw materials, productivity, process development, reduction in carbon emissions etc. Many of the cost savings achieved were significant and in compliance with the "pollution control and clean environment norms".

2. Overall Economic Report

a) Business Overview/Total Statement

At Bavaria Electrodes GmbH, Graphite Electrode production at 9,422 MT was higher as compared to 8,880 MT in 2014-15.

The Company earned profit of TEUR 138 during the year as against TEUR 231 in the previous year.

b) Economic Overall Situation and Trade Based Market Conditions

i. Economic Overall Situation Frame Conditions

The economic overall situation in Germany was characterized by growth in gross domestic product of 1.7 % in 2015. Contributed to the modest increase in the gross domestic product have a higher export growth of 2015 in comparison to 2014, the increase in domestic demand due to increased business investment and a slight upturn in private consumption. Another positive impact came from the continued favourable development in the employment market. The number of employees rose in 2015 for the eighth year in a row and reached a new highest level.

ii. Trade Based Frame Conditions

World crude steel production reached 1,622.8 million tons (Mt) for the year 2015, down by -2.8% compared to 2014. Crude steel production decreased in all regions except Oceania in 2015.

Annual production for Asia was 1,113.8 Mt of crude steel in 2015, a decrease of -2.3% compared to 2014. China's crude steel production in 2015 reached 803.8 Mt, down by -2.3% on 2014. China's share of world crude steel production increased from 49.3% in 2014 to 49.5% in 2015. Japan produced 105.2 Mt in 2015, down by -5.0% compared to 2014. India's crude steel production for 2015 was 89.6 Mt, up by 2.6% on 2014. South Korea produced 69.7 Mt of crude steel in 2015, a decrease of -2.6% compared to 2014.

In 2015, the EU (28) produced 166.2 Mt of crude steel, a decrease of -1.8% compared to 2014. Germany produced 42.7 Mt of crude steel in 2015, down by -0.6% over 2014. Italy produced 22.0 Mt in 2015, a decrease of -7.1% over 2014. France's crude steel production in 2015 was 15.0 Mt, down by -7.2%. Spain produced 14.9 Mt of crude steel in 2015, an increase of 4.4% compared to 2014.

Crude steel production for 2015 in North America was 110.7 Mt, a decrease of -8.6% compared to 2014. The US produced 78.9 Mt of crude steel, down by -10.5% on 2014.

The CIS showed a decrease of -4.3% in 2015, producing 101.5 Mt of crude steel. Russia produced 71.1 Mt of crude steel, down by -0.5% on 2014 and Ukraine recorded a decrease of -15.6% with a year-end figure of 22.9 Mt.

Annual crude steel production for South America was 43.9 Mt in 2015, a decrease of -2.5% on 2014. Brazil produced 33.2 Mt in 2015, down by -1.9% compared to 2014.

In 2016

In 2016, while it is forecasted another year of contraction in steel demand in China, slow but steady growth in some other key regions including NAFTA and EU is expected. Growth for steel demand in all markets except China is expected in 2017.

The decline in steel demand in China is expected to be -4.0% in 2016 followed by -3.0% in 2017. On a positive note, some emerging economies in South and Southeast Asia show resilient growth and along with NAFTA and the EU will support a recovery in 2017. We expect that steel demand outside China will continue to grow by 1.8% in 2016 and this growth will accelerate to 3.0 % in 2017. 2015 was marked by a further substantial decrease of the electrode prices.

c) Situation of the Company -

i. Profitability Situation -

	2015-16 TEUR	% with sales	2014-15 TEUR	% with sales
Net Sales	12.330		12.565	
Other Income	720		727	
Total Income	13.050		13.292	
Operating Expenses	12.765	97,82	12.996	97,77
PBIDT	285	2,18	296	2,27
Interest	2		-6	
PBDT	283	2,17	302	2,27
Depreciation	36	0,28	47	0,35
PBT	247	1,89	255	1,92
Tax	109	0,84	23	0,17
PAT	138	1,06	231	1,74

The company produced electrodes 9,422 mt. in the year 2015-16 as against 8,880 mt in previous year. Revenues nevertheless went down because of the reduced rate of electrodes.

Tax expenses went up compared to prior year, because expenses from tax field audits are for prior years are included. Therefore, the profit after tax is lower compared to prior year.

ii. Financial Situation

	2015-16 TEUR	%	2014-15 TEUR	%
Equity	2.649		2.510	
Return on Equity		5,21		9,20
Accruals	350		318	
Liabilities	2.018		1.730	
Total Debts	2.368		2.048	
Debt Equity Ratio		89,39		81,59
FIXED ASSETS	43		62	
Inventories	520		541	
Trade Receivables	2		3	
Receivables from affiliated companies	4.018		3.375	
Other Receivables	120		556	
Liquid Assets	301		15	
Prepaid Expenses	13		4	
SHORT TERM ASSETS	4.974		4.494	
Accruals for Taxes	0		0	
Other Accruals	350		318	
Trade Payables	789		1.044	
Payables due to affiliated companies	1.202		656	
Other Payables	28		30	
Short & Medium Term Liabilities	2.368		2.047	
Current Ratio		210,05		219,54

Due to increased electrode production in last quarter receivable from affiliated company increased.

Other receivables and trade payables are decreased as there was provision of Grid cost refund in the year 2014-15 now from this year it is covered in monthly invoice.

There is no bank financing, all financing comes from the operating cash flow.

Current ratio was mainly unchanged compared to prior year.

d) Financial and Non-financial Performance Factors

i. Financial Performance Factors

The company earned profit of TEUR 138 as against TEUR 231 in the previous year 2014-15.

The global market for graphite electrodes is dominated by a few producers. Lower Steel production through EAF route resulted in excess capacity of graphite electrodes. Hence, company could produce to the extent of around 54% in the 2015-16.

ii. Non-Financial Performance Factors

Product quality has been further stabilised on a level allowing comparison to that of the leading graphite producers. Customer acceptance is encouraging. Confidence on the part of customers, suppliers and authorities keeps on growing. However, the capacity of the Company is restricted to graphite electrodes of 550 mm diameter. The technology of steel making has undergone significant advancements. Hence, in tune with the improved quality requirements of customers, it is imperative to scale up and modernize the production facility.

Modernization of production facility will start once the market is improved.

The company has already initiated rationalisation measures for controlling costs.

e) Comparison to Previous Year

In the management report for the previous year, the company expected a further positive development of economic growth in 2014/2015 and moderate growth of the entire steel industry. It is visible from current year's production. However in spite of difficult market situation, the company could produce on 54% of the capacity as against 50% in previous year 2014-15.

3. Supplementary Report

The investment for modernisation of some tangible assets was kept on hold during FY 2015-16 until the recovery of the economy.

There were no other events with an material influence on the financial statements as of 31 March 2016.

4. Forecast-, Chance- and Risk Report

a) Forecast Report

The Company looks forward to improving its performance in the Financial Year 2016-17 following favourable business indications of global steel industry brightening and extension of the market in other continents. In 2016, the global steel industry is expected to grow, even though at a lower rate.

With the revival of global industry and extension to new markets, the Company expects in the long-term an increase in demand and improvement in results. For the business year 2016-17, the company expects a constant development of revenues as well as profit before tax.

It cannot be excluded that the actual business will diverge from expectations, because of some unforeseeable developments in the economic and commercial environment of the market.

b) Risk Report

i. Risk Management System

The company is integrated into the risk management system of the parent company. The implemented risk management system of the company uses appropriate management tools and indicators in the key areas sales and earnings development, raw material management, sales and production control as well as financing and securing of liquidity.

The integrated early detection system based on rolling budgeting is aimed at the early identification of business risks, to analyse and to classify them, to be able to handle issues which threaten the existence, in time. The management receives information on risk-relevant issues in regular reports. Depending on requirements, supplementary reports to individual circumstances can be created.

Based on the controlling reports and rolling expansions for the current business year all significant developments are presented and explained in detail by the department heads in regular meetings with the management, the current risk situation is discussed and appropriate measures to control the development of the company are defined.

The business development of the company is regularly discussed and coordinated with the parent company Graphite India.

ii. General Risks

It is undeniable that business projections have an inherent element of uncertainty of unknown elements like sudden reversal of positive trends leading to economic slowdown resulting in possible negative growth for steel, automotive and infrastructure industries slowing down which in turn may adversely impact the prospects for our industry.

It is not only the steel industry which plays a quite decisive role but also the development in raw material and energy prices as well as the market leaders' pricing policy, influence our performance.

iii) Specials Risks

a) Market Risks

The global market for graphite electrodes is in a consolidation phase. In business year 2014/2015 dominant competitors decided the reduction of production capacity in the amount of 120.000 tons. The reduction of this capacity to adapt to the reduced demand from the steel industry is essential for the consolidation of the industry. The timing and extent of the positive effects of these measures on the consolidation of the industry are fraught with uncertainties. In August 2015, one of the biggest electrode producers – GrafTech – was sold to Investment Group Brookfield. As a consequence, the electrode stocks which the new owner had taken over, were sold heavily, resulting in a strong decline in prices. The company expects a normalization of the markets in one to two years.

With an estimated reduced total demand for electrodes of approx. 195,000 MT in Europe and an estimated import of Chinese electrodes of approx. 40,000 MT in this market, the company started extending the market outside Europe. The increased share of supplies to countries outside Europe confirms that this was the right decision. The Company markets Graphite Electrodes under the brand name of 'COVA', which has good acceptance in the market.

Summarising the risk factors the company expect that the steel and also electrodes market will improve in due course.

b) Sales Risks

The product Graphite Electrode involves various manufacturing processes and hence needs to be produced as per requirement of Cova. The production planning is based on expected market developments from the global steel industry and specific requirements of the major steel industry customers. Risks may happen when the actual demand for graphite electrodes deviate from the expectations of the production. The sale of goods is only done via the fellow group

company Graphite Cova GmbH, there is therefore a sales risk.

c) Risks from Energy- and Raw Material Prices

Company has ensured the supply of electricity and gas, contracts for regular supply of them are renewable before the end of the existing contracts. For the amendment of the Renewable Energies Act (EEG), no significant changes in subsidization of electricity consumption for the company are expected.

d) Risks resulting from the use of financial instruments

The company is not using any external financing, therefore there is no material interest rate risk. Furthermore, the only customers are other group companies, therefore the default risk is considered low. Revenues and expenses are only generated in EUR, hence there is no currency risk.

e) Opportunity Report

Through the involvement of society in the globally active group of Graphite India, additional market opportunities generated outside Europe and cost benefits from the globally organized production network. The Company expects significant benefits from the consolidation of the industry in the next one to two years.

Acknowledgement

The Management takes this opportunity to place on record its appreciation of the assistance and support extended by all government authorities, consultants, solicitors, customers, vendors and others. Special thanks to the banks for having shown their confidence in the company. The Management also expresses their appreciation for the dedicated and sincere services rendered by employees of the Company.

A special acknowledgement to the technical team and management of Graphite India for extending support from time to time during the year.

Röthenbach an der Pegnitz, 6. May 2016

M. B. Gadgil

A. N. Bojilov

N. S. Deshpande

General Engagement Terms

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

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

1. Scope

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

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

2. Scope and performance of the engagement

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

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

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

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

3. The client's duty to inform

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

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

4. Ensuring independence

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

5. Reporting and verbal information

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

6. Protection of the Wirtschaftsprüfer's intellectual property

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

7. Transmission of the Wirtschaftsprüfer's professional statement

(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms.

The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.

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

8. Correction of deficiencies

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

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

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

9. Liability

(1) The liability limitation of § [Article] 323 (2) [paragraph 2] HGB ["Handelsgesetzbuch": German Commercial Code] applies to statutory audits required by law.

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

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

(3) Preclusive deadlines

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

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

10. Supplementary provisions for audit engagements

- (1) A subsequent amendment or abridgement of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.
- (2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.
- (3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

11. Supplementary provisions for assistance with tax matters

- (1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client – especially numerical disclosures – are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.
- (2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records – especially tax assessments – material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.
- (3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:
 - a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client
 - b) examination of tax assessments in relation to the taxes mentioned in (a)
 - c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
 - d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a)
 - e) participation in Einspruchs- und Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a).

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

- (4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.
- (5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:
 - a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax
 - b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and
 - c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

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

12. Confidentiality towards third parties and data security

- (1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.
- (2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.
- (3) The Wirtschaftsprüfer is entitled – within the purposes stipulated by the client – to process personal data entrusted to him or allow them to be processed by third parties.

13. Default of acceptance and lack of cooperation on the part of the client

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

14. Remuneration

- (1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays: sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.
- (2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

15. Retention and return of supporting documentation and records

- (1) The Wirtschaftsprüfer retains, for ten years, the supporting documents and records in connection with the completion of the engagement – that had been provided to him and that he has prepared himself – as well as the correspondence with respect to the engagement.
- (2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

16. Applicable law

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