Detailed statement by AURELIUS Equity Opportunities SE & Co. KGaA in response to Gotham's assertions

Grünwald, 2 April 2017

A. Preamble

In this paper, we will show in detail that the assertions made by Gotham Research LLC (“Gotham”) in its report (“Gotham Report”) published last week are substantially incorrect.

At the time the Gotham Report was published, Gotham held a significant short position in AURELIUS Equity Opportunity SE & Co. KGaA (“AURELIUS”). Gotham therefore had a vested interest in damaging the reputation of AURELIUS in order to depress its share price and make significant speculative gains to the detriment of all shareholders. Indeed, Gotham has since closed much of its short position and taken profits.

AURELIUS´ financial statements are accurate. The company’s governance structure and principles are sound. AURELIUS is a very healthy, stable and growing company, and has been since its foundation more than ten years ago. AURELIUS has a very solid balance sheet: as of December 31, 2016, AURELIUS has a strong capital base of 416.4m EUR in cash, equity of 486.5m EUR (equity ratio of 27%) and total assets of 1.8bn EUR. With a total of more than 21,000 employees, AURELIUS generated consolidated total revenues of 2.9bn EUR in financial year 2016. Furthermore, over the last five years AURELIUS has paid out 256.0m EUR via dividends and share buy-backs to its shareholders.

In its analysis, Gotham makes many fundamental intellectual mistakes: it compares apples with oranges, it confuses timelines, and it uses incomplete research to reach conclusions which are invariably inaccurate.

BaFin has initiated an investigation to assess whether market manipulation has occurred in connection with Gotham’s actions. AURELIUS fully supports BaFin's investigation and is currently evaluating all avenues to pursue legal action, including action under criminal law.

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B. Executive Summary

Gotham's report lists a number of assertions, all of which AURELIUS will disprove in this paper. We summarize our specific response to assertions on page 4 of Gotham's document here:

1) 100% of reported earnings and subsidiaries' earnings can easily be reconciled by taking into consideration the differences between IFRS and local GAAP reporting. Gotham fails to do so.
2) AURELIUS' accounts show all contingent liabilities. Gotham's calculation of contingent liabilities double-counts and misqualifies.
3) Negative goodwill, or bargain purchase, is an inherent, and legal, part of AURELIUS business model. IFRS 3 regulates how bargain purchase income has to be accounted for. AURELIUS meets all relevant reporting requirements in this regard.
4) AURELIUS has acquired 77 businesses since 2006, only four of which (5.19%) went into insolvency while being part of AURELIUS-Group. This is a very small number considering AURELIUS' strategy of acquiring distressed assets. Gotham's calculation is far-fetched.
5) AURELIUS' NAV is fully justifiable and plausible. A simple calculation shows that the company's implied NAV/EBITDA multiple is 8.9x, in line with the range for non-listed small and mid-sized companies in Europe of 7-10x. Gotham's NAV derivation makes no sense.
6) There is a good reason why AURELIUS has not received an unqualified audit opinion: its non-disclosure of individual asset acquisition prices. Such disclosure would leave the company at a disadvantage to its competitors. Gotham's charge reveals a lack of understanding of our industry.
7) AURELIUS does have an independent CFO: Steffen Schiefer has been in office as a member of the extended management board since 2012.
8) Collectively, the AURELIUS Board members continue to own a significant share in the company. Its interests are fully aligned with those of shareholders.
9) AURELIUS is not involved in more civil litigation than any other company of comparable size. It is not involved in any criminal litigation.

Further unfounded assertions made by Gotham in its report are also disproved in this response.

C. Corrective Statement

I. Gotham asserts: "We were unable to reconcile 43%-100%+ of AURELIUS' reported earnings to the sum of its subsidiaries' earnings."[2]

This is misleading.

Gotham compares the subsidiaries' annual accounts under local GAAP with the consolidated annual accounts of AURELIUS under IFRS[3].

CONSOLIDATED NET INCOME VS SUM OF SUBSIDIARIES' NET INCOME

EUR '000	2012	2013	2014	2015	TOTAL
Consolidated	€ 88,056	-€ 1,699	€ 107,591	€ 154,924	€ 348,872
Sum of subsidiaries'	€ 44,233	-€ 68,127	€ 74,991	-€ 56,345	-€ 5,249
Difference	**€ 43,823**	**€ 66,428**	**€ 32,600**	**€ 211,269**	**€ 354,121**

This necessarily produces incorrect results, the main reasons being:

- AURELIUS' consolidated accounts are under IFRS while the annual accounts of subsidiaries are under local GAAP. To make matters worse, these local GAAPs differ from country to country.

- Results of companies AURELIUS acquired during a fiscal year become part of AURELIUS' consolidated results only after the individual closing date. Simple example: if a business is acquired in September of a given year, the group accounts will only show the results from September, while the local accounts show the results for the entire year.

- No impact from first-time consolidation under IFRS 3 (with bargain purchase or goodwill as the outcome) is shown in the local accounts.

- There are always differences from de-consolidation between local account level and consolidated account level. They are ignored in Gotham's comparison.

- In addition, individual accounts become group accounts by being consolidated, so group intercompany relationships get stripped out. Gotham ignored this.

Specifically, the main reasons for the differences shown in this table[4]

ACCOUNTING IRREGULARITIES AT UK SUBSIDIARIES

Company	As reported by Aurelius		As per Companies house		Difference	
	Equity, £	P/L, £	Equity, £	P/L, £	Equity, £	P/L, £
CalaChem UK Ltd.	£25,530,000	£588,000	£25,530,000	£163,000	£0	£425,000
Getronics Services UK Ltd.	£921,393	£927,083	£412,000	£233,000	£509,393	£694,083
Regain Polymers Ltd.	£4,050,001	-£2,596,423	-£2,009,000	-£2,485,000	£6,059,001	-£111,423
SOLIDUS UK Solutions Ltd.	£4,409,223	£1,360,524	£927,012	£926,012	£3,482,211	£434,512
TFHC Ltd.	£1,000	-£1,590,305	-£1,589,305	-£1,590,305	£1,590,305	£0

[2] Gotham Report, p. 4/9-12.
[3] Table in Gotham Report, p. 11.
[4] Gotham Report, p. 11.

are as follows:

- At the end of January of each year, all AURELIUS' subsidiaries send their local IFRS reporting packages to AURELIUS' headquarters.

- Mid-February, all subsidiaries send their local GAAP figures to headquarters as well. The local GAAP figures are unaudited and therefore preliminary. The numbers are used only for the List of Shareholdings.

- Mid-March, AURELIUS publishes its Annual Report. Consolidated figures include audited IFRS accounts. Unaudited Local GAAP figures are only part of Note 75.

- By December 31, all local GAAP audits for the prior fiscal year are finalized. Due to timing differences (Mid-March vs. up to YE), differences in the Local GAAP figures occur.

Gotham compares finalized IFRS group accounts as per the end of March with single local accounts which often are still work in progress. As an aside, the procedure described above is a standard accounting routine applied by all companies which publish consolidated Annual Reports.

On allegedly unexplained differences for D&A and Cash:[5]

Gotham compares IFRS 5 adjusted P&L numbers with the non-IFRS 5 adjusted fixed asset register. Also, Gotham does not take all *"footnotes"* (correct: "Notes") from the Annual Report into consideration. It is not surprising, therefore, that its findings are incorrect.

EUR '000	2011	2012	2013	2014	2015
D&A, as reported	€ 88,984	€ 66,462	€ 73,786	€ 77,692	€ 101,264
D&A, as calculated from footnotes	€ 94,866	€ 75,958	€ 73,945	€ 77,505	€ 92,942
Difference	**-€ 5,882**	**-€ 9,496**	**-€ 159**	**€ 187**	**€ 8,322**
Difference as % of reported number	**-6.2%**	**-12.5%**	**-0.2%**	**0.2%**	**9.0%**

* - depreciation and amortization

Regarding the three main differences in 2015/2012/2011 alleged by Gotham, full explanations are available in the following Annual Reports:

- Annual Report 2015

Gotham took only the sum for D&A out of Notes 25 and 26. It also ignored the D&A number listed in Note 24 (goodwill impairment) which is part of the total D&A as shown in the above table. A correct calculation shows no difference between Notes and Cash Flow.

- Annual Report 2012

The Annual Report 2012 does show, on page 58 (P&L), the amount of 75,957k EUR. In 2013 – in accordance with IFRS 5 requirements – some entities had to be classified as discontinued operations (but only in the P&L) which is why the

[5] Gotham Report, p. 12.

D&A number for 2012 was adjusted in 2013. The adjusted number in the Annual Report 2013 is 66,462k EUR as shown in the first line. Due to the fact that balance sheet figures will not change under IFRS 5, fixed asset register numbers also remain unchanged.

The same fundamental line of reasoning applies to the 2011 figures.

II. Gotham asserts: Aurelius has no independent CFO.[6]

This is incorrect.

Steffen Schiefer has been CFO of AURELIUS since 2012. Steffen joined AURELIUS in July 2008 from ProSiebenSat1 Media AG where he was VP Group Accounting. At the end of his time at ProSiebenSat.1 Media AG he was CFO of wetter.com AG, a subsidiary of ProSiebenSat.1 Media AG.

As CFO, while not being part of the Executive Board, Steffen is a member of AURELIUS extended management board consisting of three Executive Board members plus the Head of Legal, Head of HR, and two heads of M&A.

III. Gotham asserts: "AURELIUS uses lower-tier auditors."[7]

This is incorrect.

AURELIUS uses Warth & Klein Grant Thornton AG which is part of Grant Thornton Group (GT). GT's international network has over 47,000 employees in more than 130 countries with revenues in 2016 of 4.8b USD.[8] As such, GT is one of the top 10 international audit firms. Among others, it audits the accounts of Strabag AG (Germany), Fidelity Values (United Kingdom), Pantheon International Participations (United Kingdom) and JP Morgan Trusts (United Kingdom). A comprehensive list of companies GT audits can be found on its website.[9]

IV. Gotham asserts: "AURELIUS has never received an unqualified audit opinion on its audited financial statements."[10]

Correct, but there is a good reason.

Since its foundation, AURELIUS' annual accounts have been qualified as we do not show individual disclosures under IFRS 3 and 8. The reason for this is very straightforward: disclosing purchase prices (which are part of the disclosures under IFRS 3) would expose us to a competitive disadvantage relative to our

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[6] Gotham Report, p. 4/13 et seq.

[7] Gotham Report, p.15.

[8] https://www.grantthornton.global/en/press/press-releases-2017/grant-thornton-reports-record-global-revenues-of-$4.8-billion/

[9] Source Germany: https://www.wkgt.com/globalassets/1.-member-firms/de-germany/pdf-publikationen/transparenz/transparenzbericht_2016.pdf; Source UK: http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/transparency-report-2016.pdf

[10] Gotham Report, p. 4/17 et seq.

non-listed competitors. We do disclose, however, the aggregated amount of individual purchase prices paid every year. The qualification mentioned by Gotham has never negatively affected investor confidence in AURELIUS and we are convinced that it will not do so in the future.

V. Gotham asserts: "AURELIUS withholds basic disclosures even as smaller peer Bavaria Industries AG provides clearer ones."[11]

This is incorrect.

The example put forward by Gotham as proof of its assertion – a comparison between the accounting of Bavaria Industries AG and AURELIUS – is wrong for the following reasons:

- Bavaria Industries AG reports under German GAAP, while AURELIUS reports under IFRS.

- Gotham alleges that the "Extraordinary Income" shown by Bavaria Industries AG included bargain purchases. This is wrong. In the accounts of Bavaria Industries AG, bargain purchases are part of "Other Operating Income" (as required by German GAAP). The same is true for our accounts.

- The German GAAP based Annual Report of Bavaria Industries AG consists of 68 pages, while the IFRS-based Annual Report of AURELIUS for 2015 consists of 238 pages. IFRS reporting requirements are much more exacting than those of German GAAP (*HGB*).

VI. Gotham implies that AURELIUS moved to a less transparent listing segment in 2012 to avoid regulatory or legal scrutiny.[12]

This is incorrect.

AURELIUS has never moved listing segments. While it is true that AURELIUS is listed in the Open Market, it voluntarily fulfils the same IFRS and financial audit requirements as Prime Standard listed companies in the European Union.

In 2006, AURELIUS started out as a company of five people buying distressed businesses. In 2006, the company was listed. At the time, as a small company, it did not satisfy the Prime Standard's listing requirements and consequently applied for acceptance into the entry segment, the then-called Open Market. AURELIUS has been listed in the Open Market ever since.[13]

Today, AURELIUS' reporting standards voluntarily meet most of the Prime Standard's requirements: in addition to the disclosures required by the regulatory framework imposed by the Open Market, AURELIUS publishes IFRS annual and

[11] Gotham Report, p. 19.
[12] Gotham Report, p. 20.
[13] Gotham Report, p. 20.

half-year group reports as well as quarterly press releases on key figures, in German and English. Therefore, we do not believe that a listing in the Prime Standard would improve our stakeholders position in terms of financial information. However, we are continuously assessing other listing options.

VII. Gotham asserts: "CEO Dirk Markus lives in London but AURELIUS is based in Germany."[14]

The second half of the statement is misleading.

It is true that Dirk Markus has been residing in London for almost four years. He moved to London in 2013 in order to drive forward the business in the UK and to be closer to AURELIUS' UK-based portfolio companies. More than half of AURELIUS' portfolio companies are headquartered outside the DACH region, in the UK, the Benelux countries, Scandinavia and Spain. Eight portfolio companies are headquartered in the UK and so are many of AURELIUS' institutional investors.

In terms of day-to-day management of the company, the three members of AURELIUS Executive Board have divided up their responsibilities: Dirk Markus is in charge of overall strategy, the subsidiary portfolio in the non-German-speaking countries as well as PR and IR.

VIII. Gotham states: AURELIUS' executives sold 169m EUR of shares in December 2016.[15]

AURELIUS' Board members do not disclose individual shareholdings as this is a private matter and unrelated to the performance or value of the company. There is also no legal or regulatory requirement to do so. Changes in shareholdings are disclosed as directors' dealings as per Article 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR).

Collectively, the AURELIUS Board members own a significant share in AURELIUS. They are fully committed to, and incentivised for, the company's strategic, operational and financial success, for the continued benefit of its shareholders and for its own.

IX. Gotham asks: "Does Aurelius deliberately hide and destroy unfavorable press releases from the past?"[16]

It does not.

In its early years, AURELIUS published press releases on its website only in German. As it grew, it started to publish its releases both in German and in English. AURELIUS then migrated to new website platforms in 2009 and again

[14] Gotham Report, p. 20 et seq.
[15] Gotham Report, p. 4.
[16] Gotham Report, p. 22/42.

in 2014. During the 2014 migration, German-only press releases were not migrated. In other words: non-migration was a result of documents being in German only. At no time was the content of press releases a deciding factor. As an aside: there is no legal requirement to preserve old press releases.

X. Gotham asserts: "AURELIUS claims to be a 'good home for companies' yet nearly 60% of portfolio companies entered insolvency after AURELIUS sold them, per our review."[17]

This is incorrect.

Gotham City confuses businesses with legal entities. A business often comprises multiple legal entities, eg due to a presence in several countries. Since its beginnings in 2006, AURELIUS has bought 77 businesses that encompassed approximately 620 legal entities.

Of these 77 businesses, only four (5.19% of acquired businesses) encompassing 12 legal entities (1.93% of legal entities acquired) went into insolvency while owned by AURELIUS.

Moreover, these – very few – insolvencies need to be seen in the context of AURELIUS' acquisition strategy: most of its acquisitions are in a distressed, poor state. AURELIUS acts as hospital for them and does its best to make them better.

XI. Gotham asserts: AURELIUS sells companies to related parties.[18]

This is incorrect.

We have sold companies to a wide range of buyers. The most frequent type of buyer has been strategic, ie a company coming from the same industry as the target. We occasionally also sell subsidiaries, or parts of subsidiaries, to external buy-in managers or the management of the respective subsidiary. These buy-in managers are often individuals we know from former projects and we actually like it when a buy-in manager is already known to us as it reduces the risk incurred when selling to an unknown party.

XII. Gotham asserts: AURELIUS underinvests in its portfolio companies.

This is incorrect.

The nature of our business is to buy companies which need restructuring and sometimes downsizing. They often include obsolete assets and parts of businesses that have to be discontinued in the course of the restructuring. This results in higher depreciation and impairment charges and cannot be likened to normal capex levels.

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[17] Gotham Report, p. 1/4/23-25.
[18] Gotham Report, p.25-27.

Contrary to the assertions made in the Gotham Report, our portfolio companies have healthy capex levels, in many cases, we even invest over-proportionally. One example is Reuss-Seifert, where a new production facility is being built and we are investing a total of 5m EUR in new machinery and equipment in phase 1, almost four times the D&A for the same period.

XIII. Gotham asserts: "AURELIUS' income from negative goodwill accounts for over 120% of 2011-2015 earnings."

This is misleading.

Negative goodwill, also called badwill or bargain purchase, is a profit contributor inherent to AURELIUS' business model. It accrues when AURELIUS acquires portfolio companies at prices below their book value. The difference between the acquired equity and the purchase price is booked as a profit once the company has been acquired.

Gotham asserts that if assets could really be acquired below book value, sellers would adjust their prices upwards and such *"arbitrage"* opportunities would eventually go away. In the real world, this is not the case: when a European corporate is selling a distressed asset, it is typically not the purchase price that the seller has in mind. Rather, they are looking for a buyer to provide a "good home" that can take on and responsibly restructure the business without any negative ramifications for the seller.

Gotham further asserts that bargain purchase income is *"Other Income"* rather than operating income and thus not real and of a one-time nature. In doing so, it ignores some fundamental aspects:

- The assets that we receive when we account for a bargain purchase are the entire active side of the balance sheet of the acquired business, ie plants, machinery, inventory, debtors and cash. All of this is real.

- Bargain Purchase is a contribution sellers are willing to make towards future restructuring expenses in order to get rid of the asset. Therefore, if one wants to get to operating earnings, one has to correct for bargain purchase and restructuring expenses.

- Buying and turning around distressed companies is AURELIUS' core business. We have bought 77 businesses with more than 620 legal entities since 2006, many of which with the help of bargain purchase income. So while for other businesses, M&A activity mostly is an exception and bargain purchase income rare, for AURELIUS this is a recurring, fundamental aspect of its *modus operandi*.

Gotham implies that bargain purchase accounting has been made up by AURELIUS. This is not true – IFRS 3 clearly states how bargain purchase income has to be accounted for. AURELIUS applies this IFRS standard.

How does AURELIUS account for bargain purchase? – A theoretical example

- Large conglomerate ("BigCorpCo") wants to dispose of ailing non-core subsidiary ("DistressedCo") and approaches AURELIUS.
- DistressedCo was neglected by BigCorpCo for many years and is loss-making, posting a negative EBIDTA-margin of -2%. On its balance sheet, DistressedCo has assets of 100 which are financed from equity (80) and debt (20).
- BigCorpCo is expecting further losses and restructuring expenses at DistressedCo and thus wants to sell up sooner rather than later. It is willing to sell DistressedCo to AURELIUS at a symbolic purchase price of 10.
- AURELIUS takes over DistressedCo and consolidates it into its group accounts. The assets (100) join the other assets on its balance sheet, the debt (20) joins the other debt. The difference between the equity received with the company (80) and the purchase price paid for DistressedCo (10) is a bargain purchase of 70.
- AURELIUS restructures DistressedCo and incurs restructuring costs of 30.
- After two years, DistressedCo has reached a healthy EBITDA margin of 9% of sales.
- After five years, AURELIUS sells DistressedCo yielding 90.

XIV. Gotham asserts: "AURELIUS has been accused of illegal conveyance (and found guilty in some cases) in business dealings (Einhorn case, EDS case)."[19]

This is incorrect and misleading as it implies that AURELIUS was subject to a criminal investigation and found guilty. As a general remark, AURELIUS is not involved in more civil litigation than any other company of comparable size. It is not involved in any criminal litigation.

Specifically:

As for Einhorn, AURELIUS was party to a civil law suit and was ordered to pay an amount of 500,000 EUR.

As for EDS, AURELIUS was party to a civil law suit in France. The case was settled out of court in 2013 for an amount equalling about 8% of the originally claimed amount. No ruling was issued.

[19] Gotham Report, p. 4/33.

As for MS Deutschland, AURELIUS does not face, and has never faced, a "EUR 50 million claim". AURELIUS is party to civil law suits before the Local Court of Lübeck and the Higher Regional Court of Schleswig-Holstein, the subject matter of which are damages claims by bond investors based on prospectus liability. The total amount of such claims is approx. 2.5m EUR. As of today, AURELIUS has won all law suits in this respect and is very optimistic that the same will hold true for the remaining ones.

As for Mode & Preis, AURELIUS was never accused of any wrongdoing.

XV. Gotham asserts: AURELIUS' total return multiples are lower due to contingent liabilities such as guarantees and legal disputes.[20]

This is incorrect.

In the past, only in very few and exceptional cases were the total return multiples lowered by contingent liabilities such as guarantees and legal disputes. Where this was the case, it was taken into consideration when calculating total return multiples, and these were adjusted accordingly. In particular, the Wellman guarantee[21] expired on 30 November 2016 without any claim having been raised against AURELIUS.

Since its incorporation in 2006, AURELIUS in total paid out less than 1m EUR in guarantees. Gotham's calculation of contingent liabilities is (a) overstated and (b) wrong because of (i) double counting and (ii) an erroneous qualification of a law suit as a contingent liability. For more details, see Appendix 1.

XVI. Gotham asserts: "Our estimate of NAV is 80%-90% lower than AURELIUS' unaudited and DCF-based NAV."[22]

This is implausible.

What Gotham calls *"NAV"* actually is the "portfolio NAV" only. In order to come to the full NAV of the entire group, the value of the holding ("the deal machine") has to be added.

Gotham asserts that most AURELIUS' portfolio companies are sick. This is factually wrong: while it is true that AURELIUS buys businesses in special situations, today's portfolio of companies consists of a mix of newly acquired businesses and businesses that were successfully restructured and have been in the portfolio for years. The total operating EBITDA of the portfolio is anything but *"sick"*, amounting to 114m EUR in 2016.

The Gotham Report aims to compute the sum of AURELIUS' NAVs from the WACC range published by AURELIUS in 2014 (5.7-11.9%) and 2015 (4.2-9.3%). In doing so, Gotham assumes that, due to the decrease of the WACC range

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20 Gotham Report, p. 36 et seq.
21 Referenced on p. 37-39 of the Gotham Report.
22 Gotham Report, p. 4/43-49.

AURELIUS 2015 NAV is increased by 33%. This is wrong for the following reasons:

- The WACC range does not say anything about the WACCs of AURELIUS' subsidiaries.
- The WACC range does not say anything about increases or decreases of the WACCs of AURELIUS' subsidiaries.
- Planned negative cashflows (which are possible under AURELIUS' business model and which are taken into consideration when calculating the NAV) lead to a decrease in NAV, not an increase.

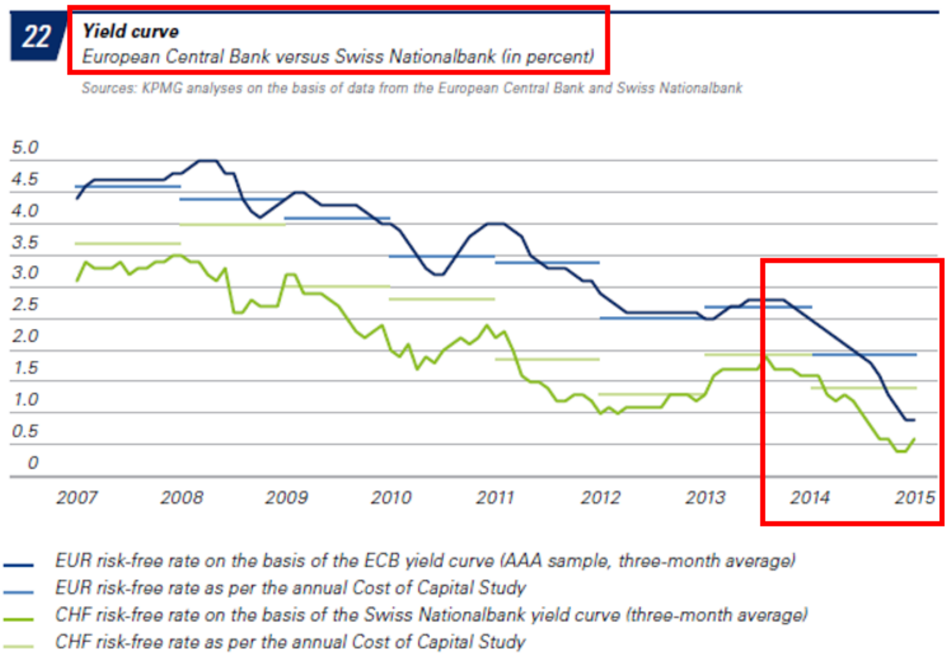
> If one was to run a sensible back-of-the-envelope cross check calculation to see whether AURELIUS' NAV was plausible, this is what it could look like:
>
> Take the latest NAV (31 December 2016) or 1.45bn EUR and deduct non-operating cash in the group (defined as cash sitting at holding levels and not in the portfolio) of roughly 250m EUR. This results in a value of roughly 1.2bn EUR which we shall call "cash-free NAV".
>
> Now take the operating EBITDA of the portfolio of 114m EUR and add back holding expenses of roughly 20m EUR related to portfolio companies. This yields operating EBITDA of the portfolio of roughly 135m EUR.
>
> Now divide the cash-free NAV of 1.2bn EUR by the operating EBITDA of the portfolio of 135m EUR which gives roughly 8.9. So the current NAV values AURELIUS' portfolio at a multiple of roughly 8.9x their EBITDA.
>
> Most EBITDA-multiples for non-listed small and mid-sized companies in Europe fall in a range of 7x to 10x[23] so 8.9x is plausible.

In order to get all external information needed to calculate NAVs, AURELIUS uses a premium tool called Capital IQ, which is also used by international audit companies such as PwC.

The calculation of the discount rates includes several parameters. All these parameters are audited by our auditors at the time of the first-time consolidation process of each acquisition. Later, the fixed and audited peer group will be updated as a function of changing external factors, for instance interest rates, beta-factors, market risk premiums etc. This is the reason why discount rates change from year to year. According to KPMG's study on cost of capital („Cost of Capital Study 2015"), published annually, WACC-rates have been declining, especially in the mentioned comparison period of 2014 and 2015. WACC rates used by AURELIUS have declined accordingly.

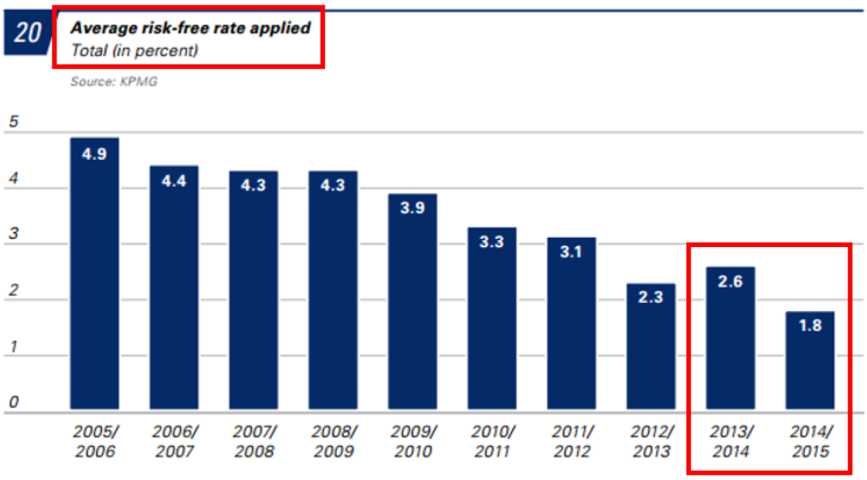
The ECB- and Swiss *Nationalbank* yield-curves confirm the declining rates:

[23] See Appendix 2.



Source: https://assets.kpmg.com/content/dam/kpmg/pdf/2016/01/kpmg-cost-of-capital-study-2015.pdf

Especially the commonly used risk-free rate declined to a historical low of 1.8%:



In addition, AURELIUS carries out Impairment Tests in accordance with IAS 36. These tests include the same discount rates/budget figures/peer groups etc. as the NAV does. Therefore, many NAVs are audited indirectly also on a yearly basis.

AURELIUS started publishing NAVs in 2014 following requests by investors. The publication is optional and no requirement of any IFRS standard. Therefore, the NAVs are not part of the audited section in the Annual Reports.

AURELIUS
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Appendix 1

"The 'Total return' on Wellman does not reflect the risk of a contingent liability."[24]

This is incorrect.

In M&A transactions, Seller and Buyer Guarantees are a standard part of a share purchase agreement (SPA). They differ from case to case but normally they are capped at a certain percentage of the purchase price and have a limited lifespan. During the last 10 years, AURELIUS did pay out cash for guarantee claims, but only in very few and exceptional cases with an aggregated amount of less than 1m EUR.

The total return number for Wellman mentioned in the Gotham Report on page 37 (29.33m EUR) does not need to be adjusted because the contingent liability (SPA guarantee) was never triggered. Wellman was sold in 2011. The SPA included a guarantee of 25.4m EUR. 4.2m EUR expired in tranches of 0.84m EUR on an annual basis, and 21.2m EUR expired after 5 years (see Annual Report 2015 Note 69).

Over the last five years, no cash outflow took place in respect of the guarantee described above. Thus, in the AR 2016 (published last week), the guarantee has now expired. No adjustment is needed and no damage is done to shareholders.

"Contingent liabilities matter for reasons beyond the Wellman/Residuum example."[25]

This is largely incorrect.

Page 39 of the Gotham Report includes the following table regarding contingent liabilities:

CONTINGENT LIABILITIES

EUR '000	31-Dec-14	31-Dec-15
Contingent liabilities, as reported	€ 101,933	€ 64,318
Contingent liabilities, as calculated	€ 105,683	€ 94,268
Difference	**-€ 3,750**	**-€ 29,950**
Difference as % of reported number	**-3.7%**	**-46.6%**

In its comments on the <u>2014 accounts</u>, Gotham has made a number of mistakes:

Framochem:

Gotham double-counted the 3,750k EUR mentioned in the section regarding the Framochem exit. This amount is part of the total number shown in this section (9,375k EUR) and therefore already part of the total amount of 101,933k EUR.

[24] Gotham Report, p. 37.
[25] Gotham Report, p. 39.

BCA:

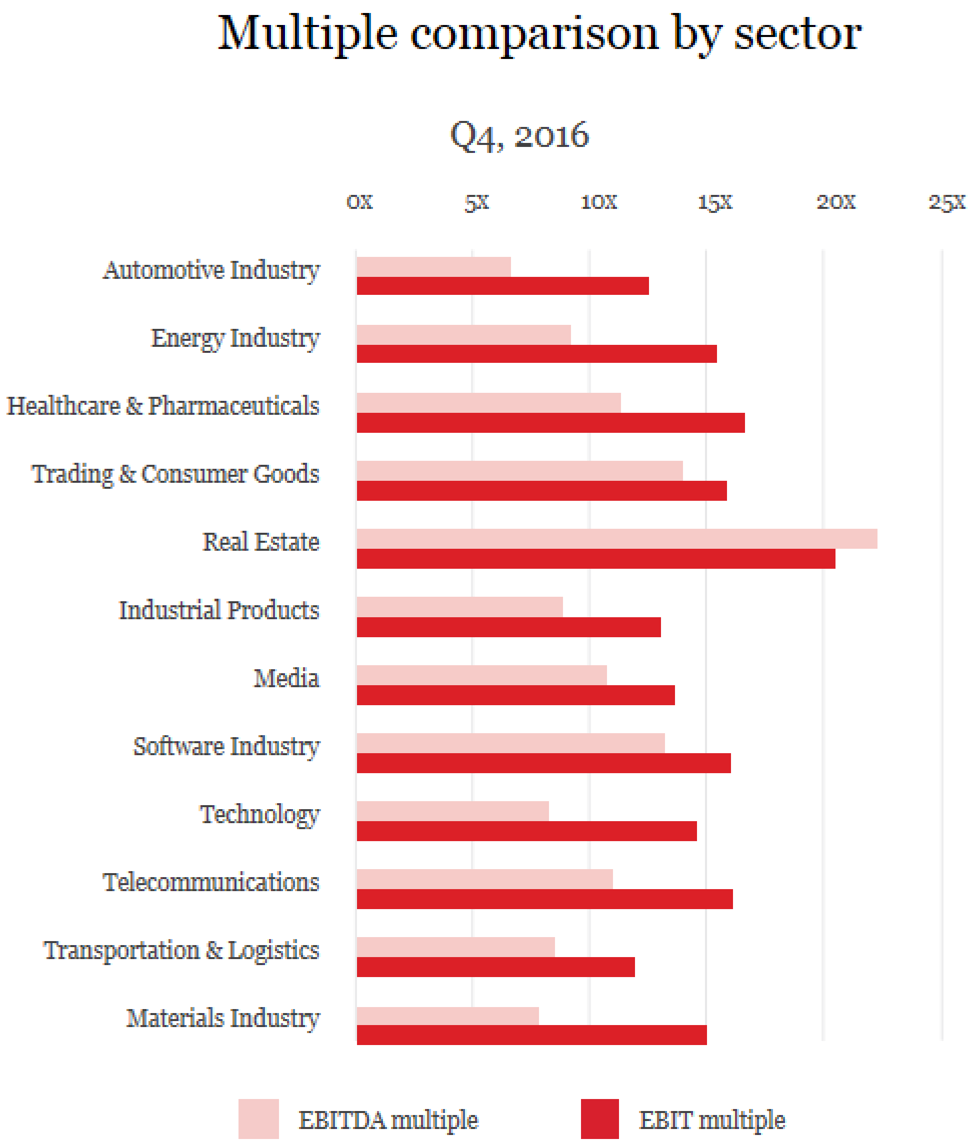
Amounts which are disclosed in the Legal Dispute section are not part of contingent liabilities. The total presented in the Gotham Report also includes a number for BCA. The Gotham Report presumes an amount of 5,000k EUR. Due to the fact that this section is shown under Legal Disputes, those numbers are not included in the contingent liabilities.

On 2015 accounts:

All individual listed amounts in Note 69 of the AR 2015 disclosures sum up to the total correct amount of 85,518k EUR. Unfortunately, there is an editorial mistake regarding the total of contingent liabilities in the first row in this section. Here AURELIUS shows an amount of 64,318k EUR. But there is no single contingent liability missing, just a wrong adding-up of the figures in Note 69.

In the cases of BCA and Framochem, Gotham repeats the same mistakes for the 2015 accounts.

Appendix 2



Source: http://pwc-tools.de/kapitalkosten/en/