ANNUAL REPORT
2019

Dermapharm Holding SE

CONSOLIDATED RESULTS AT A GLANCE

		2019	2018
Revenue	EUR million	700.9	572.4
Adjusted EBITDA	EUR million	177.6	143.4
Adjusted EBITDA Margin	%	25.3	25.1
Unadjusted EBITDA	EUR million	168.5	139.6
Unadjusted EBITDA Margin	%	24.0	24.4
Operating income	EUR million	119.5	107.5
Earnings before taxes	EUR million	110.1	104.2
Profit or (loss) for the period	EUR million	77.8	75.2
Earnings per share	EUR	1.43	1.41
Dividend proposal*	EUR	0.80	0.77
Balance sheet	EUR million	1,044.9	704.6
Equity	EUR million	284.5	256.1
Equity ratio	%	27.2	36.3
Cash and cash equivalents	EUR million	115.0	212.5
Net debt	EUR million	465.4	95.2

*Dividend subject to the resolution of the Annual General Meeting on 17 June 2020

QUICK-CHECK

>50
DEVELOPMENT PRODUCTS

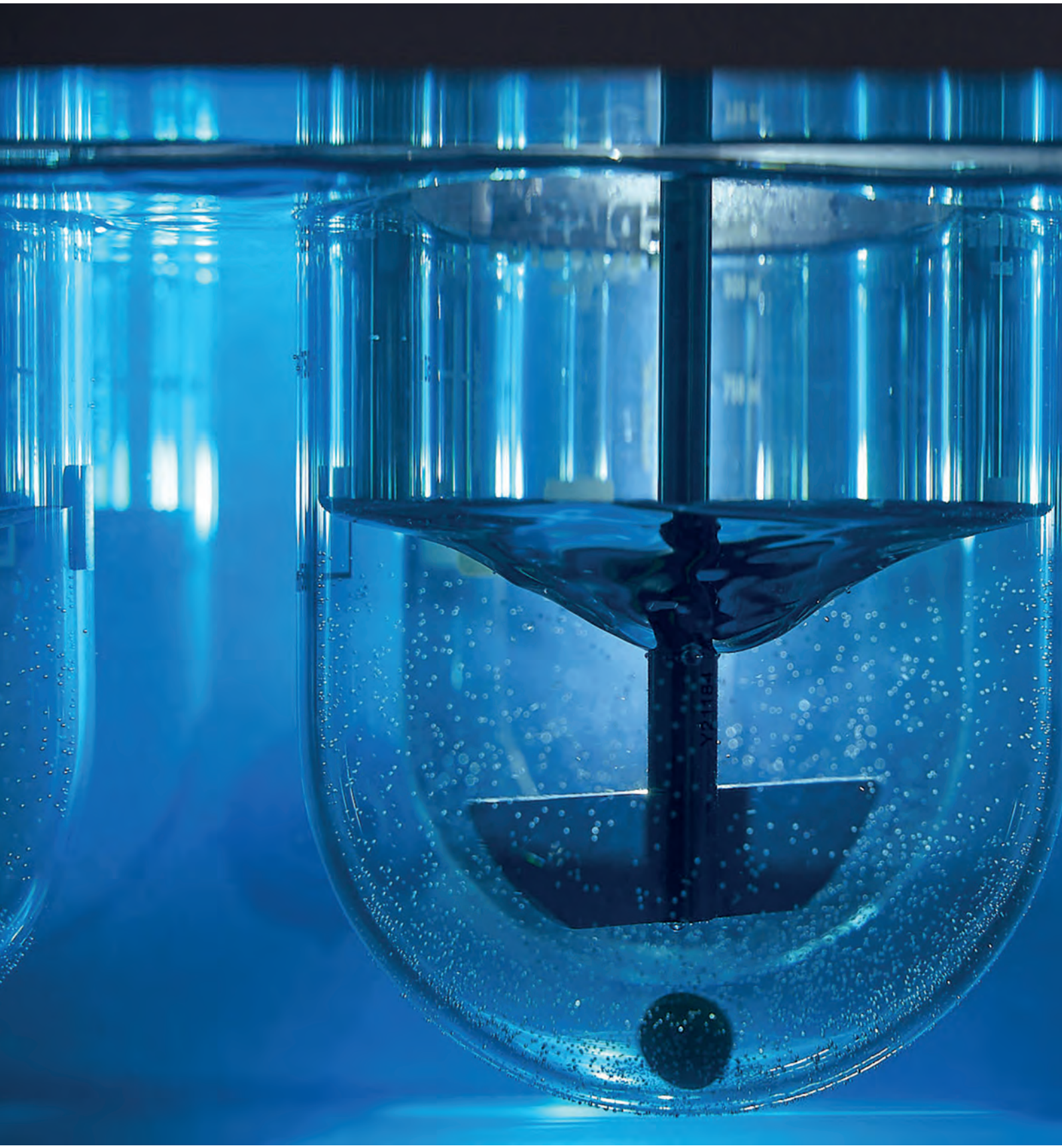
250+
PHARMACEUTICAL INGREDIENTS

>900
MARKETING AUTHORISATIONS

1,853
EMPLOYEES

For the sake of readability, we have largely refrained from using both male and female language forms in this report, but people of both sexes are always meant.

CONTENT



TO THE SHAREHOLDERS

MEMBER OF THE MANAGEMENT BOARD

Dr Hans-Georg Feldmeier
Chief Executive Officer

Stefan Hümer
Chief Financial Officer

Dr Jürgen Ott
Chief Marketing Officer

Karin Samusch
Chief Business Development Officer

LETTER TO THE SHAREHOLDERS

Dear ladies and gentlemen,
dear shareholders,

In financial year 2019, we systematically implemented our three-pillar strategy of developing products in-house, continuing our international expansion and successfully acquiring companies, all the while successfully maintaining our growth trend. We took important steps towards achieving sustainable, profitable growth in the coming years as we continued to consolidate our strong market position. Dermapharm's share price has soared by 65 % since the beginning of 2019, mirroring the Company's excellent performance. Since going public and being listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange on 9 February 2018, we have achieved all of our objectives and vigorously advanced the Group's operating business.

In 2019, for instance, we expanded our product portfolio to include additional attractive pharmaceuticals. These include, for example, Azedil®, a product developed in-house as a nasal spray or eye drops to treat acute hay fever symptoms. At the end of the year, we successfully brought two new dermatologic products to market. Furthermore, at the beginning of the year, our subsidiary Trommsdorff also received the marketing authorisation for Myditin® – a duplicate of the muscle relaxant Myopridin® marketed by Strathmann – and its sales force successfully launched the pharmaceutical on the market. With the launch of Alitriderm®, we have succeeded in making another exclusive in-licensed product launch. We leveraged further synergies by seamlessly integrating the two companies into the Group structures, which in turn contributed positively to organic growth.

We are also pressing ahead with our development projects in financial year 2020 with the aim of marketing new off-patent branded pharmaceuticals for selected niche markets in Germany and abroad. In January, we rolled out our allergy medication Levocamed®, just in time for the start of the allergy season. It comes available as a combo pack that includes a nasal spray and eye drops. Dermapharm's product pipeline includes more than 50 ongoing development projects for our selected therapeutic areas, such as dermatologics and vitamins, minerals and enzymes.

In line with our corporate strategy, we are also focussing on expanding our international presence. The formation of our network of European subsidiaries is proceeding according to plan. We are stepping up our international product marketing activities, especially in relation to our hyperthermic medical devices such as bite away®, which is used to treat insect stings and bites, and food supplements under the Hübner brand, which we are promoting in China in particular. We established a foothold in Spain at the beginning of 2019 by acquiring Euromed. In connection with this, we also formed the new "Herbal extracts" segment. Euromed is a leading manufacturer of herbal extracts and plant-based active ingredients for the pharmaceuticals, food supplements and cosmetics industries. Euromed has longstanding expertise in the development of new extracts. We believe the potential for the Group to develop healthcare products in this area is particularly interesting going forward.

In January, we took over the employees and assets of CFP Packaging GmbH, thereby expanding our production capacity by approximately 40 million sticks p.a. in order to meet the growing demand for food supplements such as Eisen VITAL and silicea DIRECT. Production activities and jobs have since been relocated to mibe GmbH Arzneimittel's nearby main production facility in Brehna.

Furthermore, in March 2019, we acquired a minority interest of 20 % in FYTA, a Dutch producer of cannabis products, thus gaining access to the growth market for medical cannabis, which we believe will continue to gain in importance.

In July 2019, we acquired 70 % of the shares in Fitvia, which is domiciled in Wiesbaden. In addition to tea, Fitvia sells food and food supplements in several European countries using a marketing concept based on social media and influencers. With consumers becoming increasingly aware of the importance of health and wellness, we acquired Fitvia to also establish a presence in the growing market for healthy and functional eating.

We have continued to improve the conditions within the Group in order to drive future growth. At the end of 2019, we successfully commissioned the new, approximately 12,000 m^2 logistics centre, which complies with the Good Distribution Practice (GDP) guidelines, in Brehna near Leipzig, thus laying the logistical foundation for the Dermapharm Group's continued growth. Furthermore, Melasan's new factory and administration building for producing food supplements in Austria was completed just before Christmas and will now be gradually brought online.

Against this background, we can look back on a highly successful business performance, as the figures for financial year 2019 impressively demonstrate. In financial year 2019, Dermapharm once again significantly raised revenue and EBITDA. Consolidated revenue increased by 22.4 % as compared to the prior-year period, to EUR 700.9 million. At the same time, we improved our profitability significantly. Adjusted EBITDA increased by 23.8 % to EUR 177.6 million in the reporting period. The adjusted EBITDA margin increased by 0.2 percentage points year on year to 25.3 %.

We have set our sights high again for financial year 2020 and will systematically implement our growth strategy. In February 2020, we acquired Allergopharma GmbH & Co. KG, which specialises in allergy desensitisation products, from Merck KGaA, thereby ideally complementing our product range with high-dosage, hypoallergenic preparations, known as allergoids. We are thus building on our expertise in the field of dermatology and now have an innovative portfolio of immunotherapeutic products to treat allergies.

We would like to thank all of our shareholders for the trust you have shown in us. At our Annual General Meeting on 17 June 2020, we will propose a dividend of EUR 0.80 per share to our shareholders.

Our employees deserve a special thank you for their incredible effort over the past year, which has been pivotal for our Company's success.

Grünwald, April 2020

The Board of Management

Dr Hans-Georg Feldmeier
Chief Executive Officer

Stefan Hümer
Chief Financial Officer

Dr Jürgen Ott
Chief Marketing Officer

Karin Samusch
Chief Business Development Officer

REPORT OF THE SUPERVISORY BOARD ON THE 2019 FINANCIAL YEAR

Cooperation between the Board of Management and the Supervisory Board

In financial year 2019, the Supervisory Board of Dermapharm Holding SE faithfully and diligently performed the duties incumbent upon it under the law and the Articles of Association. The Supervisory Board monitored and advised the Board of Management on an ongoing basis. The Supervisory Board regularly received timely and comprehensive written and oral reports from the Board of Management on the performance of Dermapharm Holding SE and the Group companies, the strategic direction of the Company and the progress made in implementing the corporate strategy. The Supervisory Board also received reports on material or urgent matters between meetings from the Board of Management. The reservations of consent stipulated for certain transactions under the rules of procedure for the Board of Management were complied with for all resolutions.

Personnel changes on the Board of Management and the Supervisory Board

Board of Management

By resolution dated 1 August 2019, Chief Marketing Officer (CMO) Stefan Grieving resigned from the Board of Management as at 31 July 2019 for health reasons.

On 26 September 2019, the Supervisory Board resolved to appoint Dr Jürgen Ott as Chief Marketing Officer to the Board of Management for a term of three years beginning on 1 October 2019. The agreement ends on 30 September 2022.

Furthermore, on 14 December 2019, the Supervisory Board resolved to re-appoint the Board of Management members Dr Hans-Georg Feldmeier as Chief Executive Officer (CEO), Stefan Hümer as Chief Financial Officer (CFO) and Karin Samusch as Chief Business Development Officer (CBDO) early for a further term of three years. The agreements end on 31 July 2023.

On the other hand, due to personal reasons, Stefan Hümer is resigning as Chief Financial Officer (CFO) at the end of his term on 31 July 2020. He joined Dermapharm in 2006 as the Head of Group Controlling & Finance and, most recently as CFO, played a key role in the Group's successful development. Successfully integrating numerous acquisitions into the Group and paving the way for Dermapharm Holding SE's successful IPO in February 2018 which are a few of Mr Hümer's invaluable contributions to the Company over the years. We would like to thank him for his many years of service to Dermapharm and wish him all the best for the future, both personally and professionally!

The Supervisory Board has appointed Ms Hilde Neumeyer to replace him as CFO. She will begin her term of office on 1 July 2020. This year marks Ms Neumeyer's 20th anniversary working for Dermapharm in finance and accounting. Most recently she was a commercial attorney-in-fact (Prokurist) and Head of Group Accounting. Ms Neumeyer has also been the Chief Compliance Officer (CCO) since the Company's IPO. Previously, she spent 9 years at Novartis' accounting department. She has many years of experience in finance and is intimately familiar with the accounting and financial reporting issues facing major pharmaceutical companies as well as those specific to Dermapharm. We would like to wish Ms Neumeyer all the best for what lies ahead!

Supervisory Board

There were no changes to the Supervisory Board in the reporting period.

Work of the Supervisory Board in financial year 2019

The Supervisory Board met six times during financial year 2019. Every member of the Supervisory Board attended every meeting convened, meaning that the average attendance rate at Supervisory Board meetings in the 2019 financial year was 100 %. The members of the Board of Management regularly joined the meetings of the Supervisory Board, with the exception of the meetings on 12 April 2019 (just the CFO), 1 August 2019, 26 September 2019 and 14 December 2019. The Supervisory Board Chairman also attended Board of Management meetings.

The Supervisory Board used its meetings to discuss any and all matters relating to the Company. As a preparatory measure, the Supervisory Board received reports from the Board of Management about the current state of the Group's business prior to meetings.

Issues of priority included the fundamental direction of corporate strategy, ongoing business performance, corporate planning as well as the situation of the Company and of the Group, particularly with regard to financial position and financial performance.

The Board of Management also provided regular detailed reports on the competitive environment, the demand situation, market structures and the development of prices and discounts in the individual markets. These reports also focused in particular on the effects of regulatory action taken by governments, including their effects on subsidiaries, and the countermeasures taken. The primary focus was on the selective approach taken by German health insurers when announcing a call for tenders for discount agreements and the participation of our German subsidiaries in our home market as well as the impact of the German Act for More Safety in the Supply of Pharmaceuticals (*Gesetz für mehr Sicherheit in der Arzneimittelversorgung, GSAV*) on the Group's parallel import business.

Also among the regular topics of discussion were potential acquisition targets, developments in the product development pipeline and the product portfolio, planned and implemented marketing measures, the technical availability of and capacity utilisation at production facilities and plants, the utilisation of logistics capacities and the integration of newly acquired subsidiaries within the Group.

The Supervisory Board's meeting on **12 April 2019** was a conference call with the auditor, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf. After extensive discussion with the auditor, the Supervisory Board approved the 2018 annual and consolidated financial statements together with the management report and the combined Group management report.

The Supervisory Board's meeting on **25 April 2019** was held at the main manufacturing facility in Brehna. In addition to attending the topping out ceremony for the new logistics centre and touring the production facilities, the Supervisory Board received a report from the Board of Management on current and planned investments. In connection with internationalisation, the most recent and prospective acquisitions were discussed. The Board of Management also presented new, internally developed products and changes to the existing product portfolio to the Supervisory Board. Furthermore, the Board of Management and the Supervisory Board again discussed the potential impact of the German Act for More Safety in the Supply of Pharmaceuticals (GSAV).

Another Supervisory Board meeting was held directly after the Annual General Meeting on **4 June 2019**. The Board of Management presented the current financial and liquidity situation to the Supervisory Board and discussed the refinancing projects. The Supervisory Board was also informed about potential acquisition targets and the impact of purchase price allocations on company acquisitions. The Board of Management and the Supervisory Board also discussed selected aspects of the corporate strategy and corporate planning. The Supervisory Board also considered the Company's corporate governance principles and discussed implementation of the new recommendations of the German Corporate Governance Code.

The Supervisory Board held a meeting on **1 August 2019** by way of a conference call. At this meeting the Supervisory Board regrettably had to dismiss the Chief Marketing Officer Mr Stefan Grieving as a member of the Board of Management early and with immediate effect due to health reasons.

The Supervisory Board thanks Mr Grieving for his many years of service to Dermapharm. Over the past nine years he has played a major role in the positive development of the Company and we have come to appreciate him as a competent colleague with integrity. We wish him all the best for the future!

The Supervisory Board held another meeting on **26 September 2019** by way of a conference call. At this meeting, Dr Jürgen Ott was appointed to the Board of Management as the Chief Marketing Officer effective 1 October 2019.

Dr Ott has many years of experience in the areas of marketing and sales. He held various posts at Bionorica SE, a manufacturer of herbal pharmaceuticals, where he was most recently responsible for central Europe. In particular, Dr Ott brings with him valuable experience in the field of herbal products, which Dermapharm intends to build on. We would like to wish Dr Ott all the best for what lies ahead!

A further meeting on **14 December 2019**, the Supervisory Board discussed the reappointments of the Board of Management members Dr Hans-Georg Feldmeier (CEO), Stefan Hümer (CFO) and Karin Samusch (CBDO). It also discussed past and planned acquisitions. At this meeting, the Supervisory Board also examined the Company's current performance and the successful placement of a promissory note loan.

During the reporting year, there were no conflicts of interest on the Supervisory Board. The Company's Supervisory Board did not form any committees since the Supervisory Board consists of only three members.

Remuneration of the Supervisory Board

According to Article 15 (1) of the Articles of Association, each member of the Company's Supervisory Board is entitled to fixed remuneration of EUR 70,000 for their work during the 2019 financial year. Of this amount, EUR 52,500 was paid in the 2019 financial year.

Audit of the combined 2019 annual and consolidated financial statements

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the annual financial statements prepared by the Board of Management in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch*, HGB) as well as the consolidated financial statements and combined management report for financial year 2019 prepared on the basis of International Financial Reporting Standards (IFRS) in accordance with § 315e HGB and issued each an unqualified auditor's report.

The members of the Supervisory Board received the above documents, the auditor's respective long-form audit report and the Board of Management's recommendation on the appropriation of the net earnings in due time. The Supervisory Board examined this at its meeting on 6 April 2020. The auditor was present at this meeting and reported on the material audit findings. Upon completion of its own examination, the Supervisory Board concurred with the auditor's findings and did not raise any objections to the annual financial statements, consolidated financial statements, the combined management report or the recommendation on the appropriation of the net earnings for financial year 2019 prepared by the Board of Management. Following the review of the Board of Management's proposal on the appropriation of net earnings, which was conducted on 6 April 2020 and included a discussion with the auditor, the Supervisory Board agreed with and approved the Board of Management's proposal for the appropriation of net earnings. The proposal included distributing the unappropriated net earnings of EUR 43,072,000 in total. The annual financial statements are therefore adopted.

Furthermore, the auditor also audited the dependent company report prepared by the Board of Management of Dermapharm Holding SE required by § 312 of the German Stock Corporation Act (*Aktiengesetz*, AktG). The audit did not give rise to any objections. The auditor issued the following unqualified auditor's report:

"In our opinion and in accordance with our statutory audit, we certify that (1) the factual disclosures provided in the report are correct, (2) the Company's consideration concerning legal transactions referred to in the report was not unduly high or any disadvantages were compensated for."

The members of the Supervisory Board also received the Board of Management's dependent company report and the auditor's corresponding audit report in due time. The Supervisory Board examined this at its meeting on 6 April 2020. The Supervisory Board's examination of the dependent company report did not give rise to any objections. The Supervisory Board therefore concurred with the auditor's findings and, upon completion of its examination, the Supervisory Board did not raise any objections to the concluding declaration by the Board of Management in the dependent company report.

The members of the Supervisory Board also received the Board of Management's separate Group non-financial report in due time. The Supervisory Board examined this at its meeting on 6 April 2020. The Supervisory Board's examination of the separate Group non-financial report did not give rise to any objections. Upon completion of its examination of the Board of Management's separated Group non-financial report, the Supervisory Board did not raise any objections.

Thanks and acknowledgements

We would like to thank the Board of Management for its unfailing open and constructive cooperation this past year. We would also like to give special thanks to our employees for their hard work this past 2019 financial year. The Supervisory Board likewise wishes the Board of Management and the employees continued success in meeting the coming challenges of the new financial year.

Grünwald, April 2020

Wilhelm Beier

Chairman of the Supervisory Board

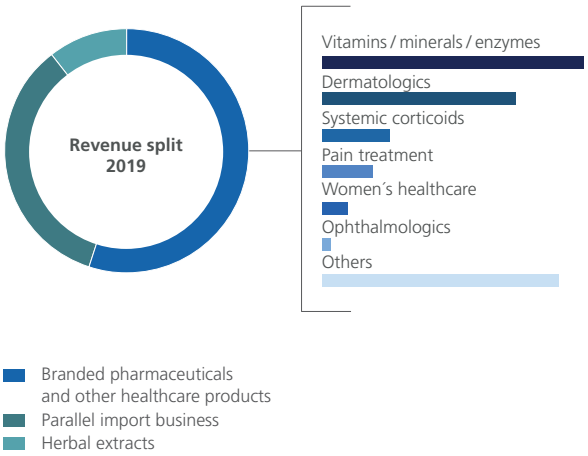
DERMAPHARM AT A GLANCE

Specialist for off-patent branded pharmaceuticals

We are a leading manufacturer of off-patent branded pharmaceuticals for selected therapeutic areas. Our product range covers prescription pharmaceuticals (Rx), over-the-counter (OTC) products, food supplements and medical devices. More than 50 % of our brand portfolio consists of originator preparations which are no longer protected by patents. Founded in 1991, Dermapharm is based in Grünwald near Munich. The Group's main manufacturing facility for the development and production of as well as logistics associated with branded pharmaceuticals is located in Brehna near Leipzig.

Our proven expertise in product development enables us to develop, manufacture and market a wide range of branded pharmaceuticals based on formulations of active pharmaceutical ingredients that are no longer protected by patents. Our portfolio currently comprises more than 250 active pharmaceutical ingredients; resulting in more than 900 marketing authorisations. Furthermore, we offer a growing portfolio of other healthcare products such as food supplements, dietary medical devices and cosmetics. This broad product range makes our Company unique.

One of our key strengths is the in-house product development, in-house production in accordance with the Good Manufacturing Practice (GMP) standard and distribution of pharmaceuticals and other healthcare products for specifically targeted markets by our medical and pharmaceutical sales force. Our "Made in Germany" quality seal and an integrated business model have helped us to achieve a strong track record for developing and marketing new pharmaceuticals and other healthcare products. We have obtained marketing authorisations for more than 250 pharmaceuticals developed by our highly qualified team of researchers. These marketing authorisations also include authorisations for markets outside of Germany. Our comprehensive approach allows us to control the entire value chain and optimise margins by reducing production costs.



Our focus also lies on the attractive growth market for herbal pharmaceuticals and healthcare products. In early 2019 after acquiring the Spanish company Euromed, we created a new segment, "Herbal extracts", as a home for our activities relating to the production of herbal extracts. We also operate a parallel imports business under the "axicorp" brand. We import originator pharmaceuticals from other EU Member States and resell them to pharmaceuticals wholesalers and pharmacies in Germany. This enables us to benefit from the different pricing structures in the individual EU member states. Based on revenue, axicorp was one of the top five parallel importers in Germany in 2019.

Attractive product mix

Our ever-growing product portfolio, which includes well-known brands such as Dekristol®, Ampho-Moronal® and Prednisolut®, primarily covers selected and specialised niche markets with high entry barriers and low levels of competition. We hold a significant market share in each of these markets and are often the market leader. With a mix of high-growth products and stable products which doctors and pharmacies use as standard therapies, we have a market presence with an attractive and diverse portfolio. This portfolio primarily covers the following therapeutic areas: Vitamins/minerals/enzymes, dermatologics, systemic corticoids, women's healthcare, pain treatment, ophthalmologics and other healthcare products. We have compounds with more than 250 different active pharmaceutical ingredients in varying strengths and dosage forms. This allows us to offer doctors, pharmacists and patients different solutions for individual medical treatment needs.

We have also developed an attractive product category within and beyond the pharmacy business with our patented hyperthermic medical devices bite away® and Herpotherm®. Our equity investment in Fitvia, which markets its products for healthy eating exclusively via social media, has also opened the door to new target groups for us.

We have successfully implemented our internationalisation strategy and, in addition to our home market of Germany, we are now also present in the United Kingdom, Italy, Spain and the United States. We have also been doing business for many years now in Austria, Switzerland, Croatia, Poland and Ukraine. During the current financial year we will work to market selected products from our existing German product portfolio as well as new product developments in these European markets and in countries outside of Europe.

CONSISTENT GROWTH STRATEGY WITH THREE PILLARS

In-house product development

We develop and successfully bring to market additional pharmaceuticals and other healthcare products at our very own centre of excellence. Once our specialists identify a potentially attractive off-patent pharmaceutical that fits with our portfolio, we can successfully complete all key development and authorisation processes for generics in house – including designing and funding clinical trials. We rely on the know-how of our own experienced experts for this. We then begin manufacturing these newly developed products in-house. In total, we manufacture about 90 % of our pharmaceutical product portfolio ourselves.

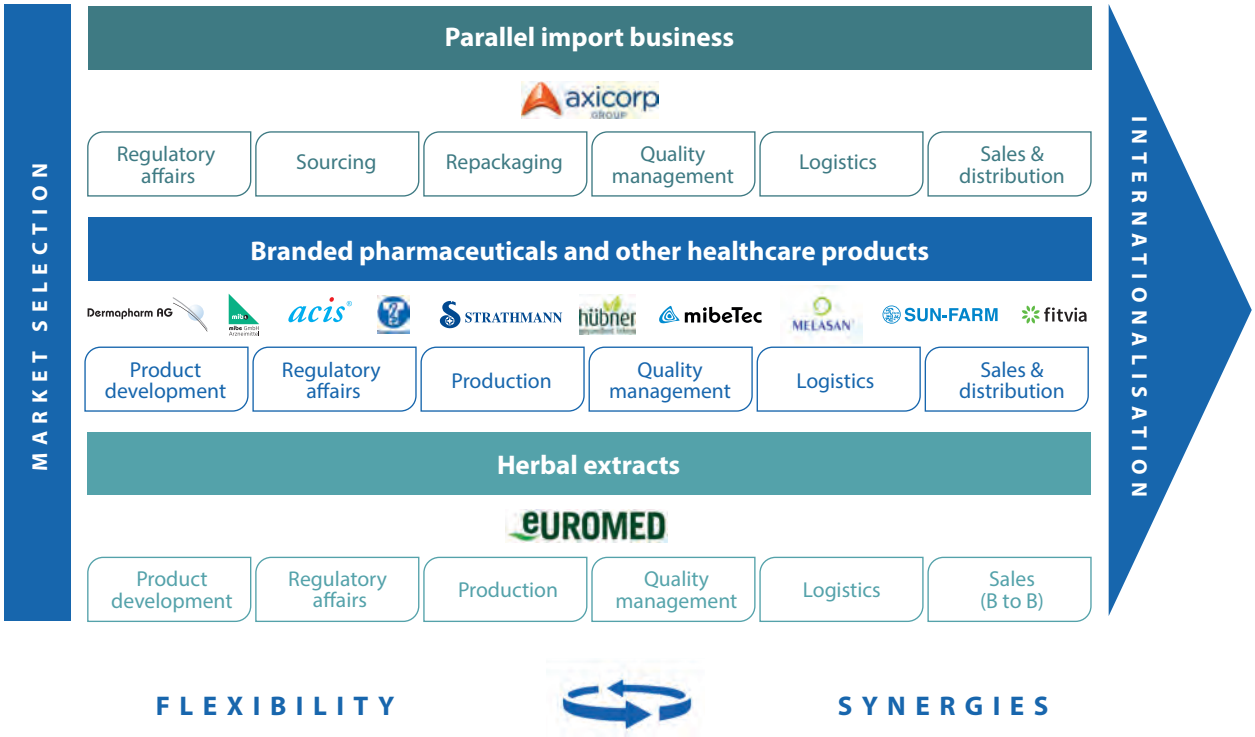
Internationalisation

In order to further expand our business with branded pharmaceuticals and other healthcare products, we have formed subsidiaries in the United Kingdom, Italy, Spain and the United States and have hired sales and distribution managers who are intimately familiar with their respective territories. Furthermore, myriad compounds developed in-house are currently undergoing the approvals process in these countries, ensuring that we will gradually enlarge our portfolio and the respective sales and distribution structures as we expand into new markets. For instance, we are expanding into other countries in Europe, Asia and the Americas with our CE-certified and internationally patented hyperthermic medical devices bite away® and Herpotherm®.

M&A activities

Obtaining new authorisations and acquiring products and companies has always been part of Dermapharm's business strategy. Since the Company's formation in 1991, we have steadily expanded our product offering through successful acquisitions. This includes, for example, the acquisition of pharmaceuticals manufacturers such as Trommsdorff and Strathmann, which complement Dermapharm's portfolio ideally, the acquisition of attractive patented medical devices and the acquisition of Euromed, with which we are expanding the entire value chain to include herbal extracts. We continually review specific growth opportunities and continue to pursue strategic options that fit our corporate strategy.

Integrated business model of Dermapharm Holding SE



STRUCTURAL CONDITIONS CREATED FOR FURTHER GROWTH

The new logistics centre in Brehna

At the turn of the year 2019/2020, we commissioned mibe GmbH Arzneimittel's new central logistics centre in Brehna near Leipzig, thereby further expanding the Group's distribution capacities. The new construction expanded the existing production facility to a total of more than 50,000 m² and provides approximately 12,000 m² in additional useable area. The added capacity and the commissioned logistics centre enable us to bundle the logistics activities of our most recent acquisitions in Germany at a single location. At the same time, we have laid the logistical foundations for further growth in the coming years.

The Brehna facility is the home base for some 570 highly qualified employees and functions not only as Dermapharm's central logistics hub but also its largest development and production location. This will facilitate synergies between development, production and distribution logistics, which will in turn translate to cost savings, resource conservation and advantages for our customers. We can cut costs dramatically by using new technologies and consolidating processes. At the same time, the expansion of the Brehna site reflects our commitment to Germany as a production hub and enables us to deliver the highest quality and best possible service levels at competitive prices.

Logistics operations were transferred seamlessly without impeding our day-to-day business. Since the start of 2020, nearly 100 employees have been working hard to ensure that orders are processed smoothly and that more than 40 million packages that leave the facility each year reach our customers. Goods are delivered to customers by certified forwarding agents who deliver a wide range of products to pharmaceutical wholesalers, pharmacies, hospitals and health food stores. We also export goods to the warehouses of our own subsidiaries, for example in Poland and in Switzerland, and to pharmaceutical wholesalers in Austria and Croatia. In addition, we ship to over 40 international export markets, including Canada and Australia.

At the same time as we were building our new logistics facility we were also further increasing our manufacturing capacities at existing production facilities. Five machines for manufacturing direct sticks (powder, gel and liquid form) are now in operation at the new production facility. The integration of the company CFP Packaging has thus been completed on schedule. We acquired the material assets of CFP Packaging, which had gone insolvent, at the beginning of 2019, thereby expanding our production capacity by approximately 40 million sticks p.a., allowing us to satisfy the growing demand for food supplements.

All of CFP Packaging's employees now have competitive jobs working at Dermapharm's state-of-the-art facilities in Brehna. In addition to the machines for manufacturing direct sticks, we also commissioned a new, 4-fold fully automatic filling machine for liquid OTC pharmaceuticals. This machine is primarily used for the pharmaceutical China-Oel®, which reliably alleviates cold and flu symptoms. The new filling machine allows us to double our filling capacities by a further five million units p.a.

Melasan increases production capacities

At the end of 2019, our subsidiary Melasan finished a new production, administration and warehouse building with approximately 6,000 m² of useable space in Neumarkt am Wallersee, near Salzburg, Austria. The move will take place in the first half of 2020. Melasan specialises in developing and manufacturing food supplements and dietary food products in capsule form. In 2019, the company and its 70 employees produced some 200 million capsules – 95 % of which as a contract manufacturer for pharmacies, pharmaceutical wholesalers and physician groups in the DACH region and 5 % for its own sales. The increased capacities will help our Group continue to grow in the area of food supplements.

KEY FIGURES LOGISTICS

~12,000 m²
ADDITIONAL USEABLE AREA

>40 million
PACKAGES DISTRIBUTED P.A.

~100 employees
EMPLOYEES FOR PROCESSING ORDERS

IN FOCUS: M&A

Interview with Karin Samusch, Chief Business Development Officer

Ms Samusch, Dermapharm again acquired companies in the past year. What makes your M&A strategy different?

Karin Samusch: M&A is in Dermapharm's DNA, so to speak, and is part and parcel of our business strategy. Obtaining new marketing authorisations and acquiring attractive patented medical devices or companies has been a key factor for our success and why we've continuously grown since our formation in 1991. The decisive factor for us is that the acquisition should ideally complement our portfolio and enable us to build on our expertise in growth markets. In the past year we again used the momentum to strengthen our position in selected areas.

One of the companies you acquired was Euromed in Spain. What drove Dermapharm to take this step?

Karin Samusch: Acquiring Euromed made sense for us strategically. On the one hand, it enabled us to tap a new market and expand the existing value chain. By acquiring Euromed, the leading manufacturer of standardised herbal extracts and natural active ingredients for the pharmaceuticals, nutraceuticals and cosmetics industries, we have secured valuable expertise in the growth market for herbal pharmaceuticals and health products. Another factor was the company's international presence – Euromed already markets its products in 38 countries. On the other hand, there's the possibility that our established international subsidiaries could also manufacture new herbal preparations on the basis of the extracts developed by Euromed. The knowledge of the local industry will also help us to bring the Group's pharmaceutical products to the Spanish market via the newly formed company mibe pharma España.

At what point do you consider the integration of a company to be successfully completed?

Karin Samusch: In the past year, we successfully completed several M&A transactions with the acquisitions of the Euromed Group and CFP Packaging's assets as well as the equity investments in FYTA and, most recently, Fitvia, which also markets tea, food products and food supplements. Dermapharm is always seeking to efficiently integrate new companies into its business model and has a decades-long track record for doing so. You can recognise a successful integration by the fact that we as a Group leverage synergies and the newly acquired companies increase their efficiency within the existing Group structures. This worked brilliantly with the recently acquired companies Trommsdorff and Strathmann, which are contributing to growth with their high margin products and streamlined processes.

At the beginning of 2020 you announced the takeover of Allergopharma. Can investors expect further acquisitions?

Karin Samusch: Yes, by acquiring Allergopharma, we strengthened our position in the field of allergy desensitisation. We are thus expanding our dermatology therapeutic area. Allergopharma operates in our core markets and will help propel our international expansion. Irrespective of this, we will hold fast to our growth strategy and, in addition to in-house product development and our continued international expansion, we will keep our sights set on M&A targets. We specialise in high margin products in niche markets where we're looking to further round off our diverse portfolio. So, you can be sure that we'll keep examining other potential growth opportunities that complement our strategy.

Karin Samusch
Chief Business Development Officer

M&A: SUCCESSFUL ACQUISITION OF EUROMED

Entry into the growth market for herbal pharmaceuticals

The acquisition in January 2019 of Euromed S.A., a leading Spanish manufacturer of herbal extracts and active ingredients for the pharmaceuticals, food supplements and cosmetics industries enabled Dermapharm to successfully tap the growth market for herbal pharmaceuticals and at the same time to expand its own value chain. We created a new segment, "Herbal extracts", as a home for this business. Euromed has over 50 years' of experience in the production of herbal extracts and in highly specialised production equipment and facilities. As a Group, we are looking to leverage this for product development and sales and distribution activities. We have raised our international profile by acquiring Euromed. The company currently serves more than 300 customers in 38 countries. At the same time, this acquisition has paved the way for us to expand into the Spanish market with our branded pharmaceutical preparations.

Founded in 1971, the company operates a drying facilities in Okeechobee, Florida, United States, as well as production facilities in Molina de Segura, Murcia, Spain, and Mollet del Vallès, Barcelona, Spain, which is also home to the innovation centre. More than 5,000 tonnes of biomass are collected there and ultimately over 800 tonnes of herbal extracts are sold – approximately 98 % abroad. The biomass is subject to strict selection criteria and the Good Agricultural and Collection Practices (GACP). Euromed uses environmentally friendly technologies at its new production facility for food supplements in Murcia and employs complex water-based extraction methods to collect herbal extracts.

Euromed continues to develop new products in-house to complement its already broad range of herbal extracts. At present, the portfolio comprises more than 200 product variations. Euromed is a preferred vendor for customers from the pharmaceuticals industry, some of whom have worked with the company for many years now.

The heart of Euromed is its innovation centre, where Euromed's specialists focus on developing new plant-based active ingredients. On the one hand, the experts develop products for specific health applications, while on the other the focus is on active ingredients tailored to meet existing customer demands. Our objective is to leverage synergies in this attractive segment and to secure new plant-based active ingredients exclusively for the Dermapharm Group.

Euromed's new Mediterranean fruit extracts

ABAlife®

ABAlife® is a standardised fig extract (Ficus carica L.) that promotes healthy blood sugar levels and lends itself to managing stress. It plays a key role in regulating blood sugar levels in humans. The extract is also said to have a positive effect on carbohydrate metabolism.

Mediteanox®

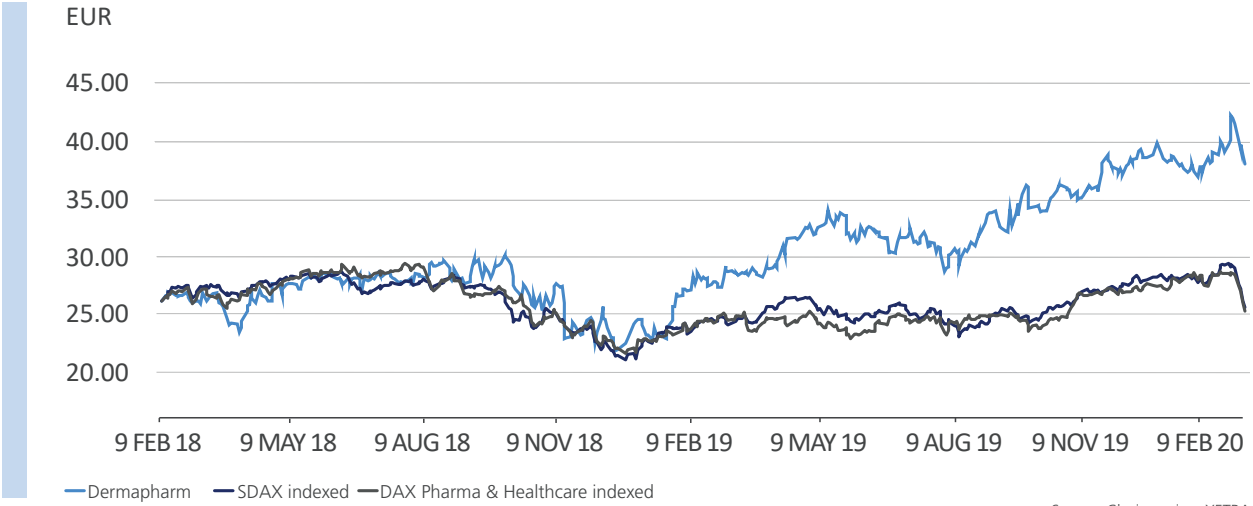
Mediteanox® is a natural extract taken from olives (Olea europaea) grown in Spain. Secondary plant substances from olives are some of the most potent dietary antioxidants available and help the human body to detox. They can be found in food supplements, food products, nutraceuticals, cosmetics and pharmaceuticals.

Pomanox®

Pomanox® is a natural extract taken from pomegranates (Punica granatum) grown in Spain. Studies have demonstrated its efficacy in promoting cardiovascular health and in treating inflammation. It can be found in food supplements, food products, nutraceuticals, cosmetics and pharmaceuticals.

For more information on Euromed's products, please visit www.euromed.es.

SHARE INFORMATION



Source: Closing prices XETRA

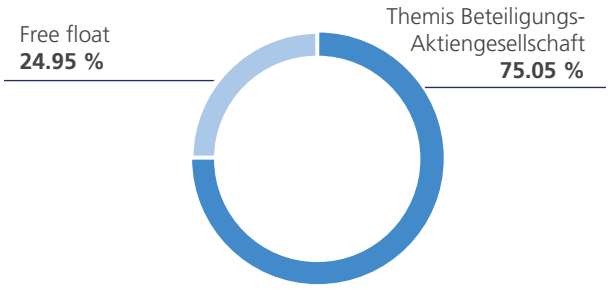
Share price performance

Dermapharm shares began 2019 trading at EUR 22.70. The price of Dermapharm shares reached its low of EUR 22.40 on 15 January 2019. Overall, Dermapharm's share price saw a strong upward trend during financial year 2019 and peaked at EUR 39.75 at the end of the year on 30 December 2019. The shares continue this positive trend in the first months of 2020, breaking the EUR 40-mark on 18 February 2020 to close at EUR 40.05. As at 28 February 2020, the price of Dermapharm's shares has increased by 46.0 % since the Company's IPO on 9 February 2018. In comparison, the small-cap index SDAX showed a slight downward trend overall, declining by 2.3 % between Dermapharm's IPO and 28 February 2020. During the same period, the DAXsector All Pharma & Healthcare Index performed similarly to the SDAX, decreasing 3.3 %.

The shares at a glance (XETRA)	
High (18 February 2020)	EUR 40.05
Low (20 December 2018)	EUR 21.62
Closing price (28 February 2020)	EUR 37.95
Trading volume (9 February 2018 to 28 February 2020; average number of shares)	27,408 shares

General information	
German Securities Code (WKN)	A2GS5D
ISIN	DE000A2GS5D8
Ticker symbol	DMP
Type of shares	No-par value ordinary bearer shares
Initial listing	9 February 2018
Number of shares	53.84 million
Stock exchanges	Regulated Market (Prime Standard) of the Frankfurt Stock Exchange
Analysts	Charlotte Friedrichs, Joh. Berenberg, Gossler & Co. KG Daniel Wendorff, Commerzbank AG Dennis Berzhanin, Pareto Securities AS
Designated Sponsors	Joh. Berenberg, Gossler & Co. KG Commerzbank AG Mainfirst Bank AG

The majority (75.05 %) of the no-par value shares are held by Themis Beteiligungs-Aktiengesellschaft. 24.95 % of the shares in Dermapharm Holding SE are in free float as defined by Deutsche Börse. With the exception of treasury shares, this includes all holdings below 5 %.



Disclosure based on the notifications of voting rights received in accordance with German Securities Trading Act (WpHG, as of 1 July 2019)

IR activities

By selecting the Prime Standard, Dermapharm Holding SE deliberately opted for Deutsche Börse's most strictly regulated segment when it went public last year. We strive to communicate transparently with all capital market participants. This includes providing our investors with the latest information by regularly publishing financial reports in both German and English as well as any Company-related disclosures in a timely manner. In addition to our legal obligations, we aim to expand on our IR activities by participating in investor conferences and one-on-one meetings. In 2019, the members of the Board of Management conducted a total of six roadshows and visited seven national and international investor conferences, including the Deutsches Eigenkapitalforum in Frankfurt and the Berenberg European Conference 2019 in the United Kingdom.

For detailed information on our Company and the shares, please visit our investor relations website at www.ir.dermapharm.de.

2019 Annual General Meeting

On 4 June 2019, Dermapharm Holding SE held its 2019 Annual General Meeting (AGM) at the Westin Grand Munich Hotel. 91.17 % of the share capital was in attendance. All agenda items were approved with a large majority. At the Annual General Meeting, the Board of Management reported in detail on Dermapharm Holding SE's operational and strategic development in financial year 2018 and in the first quarter of 2019. Dermapharm successfully maintained its growth trend as it significantly increased revenue and earnings. Accordingly, the Annual General Meeting ratified the actions of the Board of Management and of the Supervisory Board for financial year 2018 by a large majority. The AGM followed the Board of Management's recommendation to distribute a dividend of EUR 0.77 per no-par value share. Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was engaged as the auditor for the 2019 financial year.

The detailed results of the voting for each agenda item are available at the Annual General Meeting section of the Company website www.ir.dermapharm.de.

Financial calendar

Publication of Q1 Quarterly Release	19 May 2020
Annual General Meeting	17 June 2020
Publication of preliminary figures for 2020 half year	21 August 2020
Publication of 2020 Half-Yearly Financial Report	9 September 2020
Publication of Q3 Quarterly Release	16 November 2020

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT ON THE SITUATION OF THE COMPANY AND OF THE GROUP FOR FINANCIAL YEAR 2019

1. Information about the Group

1.1 Business model and strategy

Business model

Dermapharm Holding SE (together with its consolidated subsidiaries referred to as "Dermapharm" or the "Group") is a leading manufacturer of off-patent branded pharmaceuticals for selected therapeutic areas in Germany, with a growing international presence. In addition to prescription pharmaceuticals, Dermapharm's range of brands cover in particular the growing OTC market, non-prescription natural remedies, medical devices and herbal extracts. Dermapharm also sells parallel imports of originator preparations in Germany. The Company currently focuses on the three segments "Branded pharmaceuticals and other healthcare products", "Herbal extracts" and the "Parallel import business".

Branded pharmaceuticals and other healthcare products

By pursuing a targeted acquisition strategy and intelligent product development, Dermapharm has built up a broad product portfolio of off-patent branded pharmaceuticals in profitable niche markets. Furthermore, Dermapharm offers a growing portfolio of other healthcare products such as cosmetics, food supplements and dietary products as well as medical devices, some of which are protected by patents. Our extensive range of pharmaceuticals and healthcare products comprises more than 250 active pharmaceutical ingredients resulting in more than 900 national and international marketing authorisations. The majority of these are produced in-house and sold via our distribution organisation.

As a medium-sized corporate group, we are particularly committed to our medium-sized partners such as doctors and pharmacists and of course especially to our patients. The Group's product portfolio covers a broad spectrum of groups of active ingredients in varying dosage forms and strengths. This allows Dermapharm to offer many different solutions for individual medical needs. According to the market research firm INSIGHT Health, Dermapharm is the market leader for prescription dermatologics and systemic corticoids in Germany, based on the number of prescriptions written by doctors registered there. According to INSIGHT Health, Dermapharm is also the market leader in prescription vitamins with its vitamin D compound Dekristol® 20,000 I.U.

Herbal extracts

By acquiring the Spanish company Euromed, a leading manufacturer of standardised herbal extracts and natural active ingredients for the pharmaceuticals and cosmetics industries, Dermapharm gained access to herbal raw materials and natural active ingredients and expanded its own value chain.

The broad product range is manufactured in house at modern development and production facilities using patented processes and marketed in 38 countries via a "B2B distribution model". Dermapharm continues to market Euromed's products to Euromed's international customers and increasingly uses these to manufacture its own products.

Parallel import business

Dermapharm operates its parallel import business under the well-known "axicorp" brand. This is supported by the statutory requirement that at least 5 % of all prescription originator pharmaceuticals decreed under the statutory health insurance system in Germany must be imported from the European Union's internal market.

Due to legislative amendments that entered into force on 1 July 2019, every pharmacist must now achieve a savings target of 2 % by selling affordable pharmaceuticals imported from the European Union's internal market. The target represents the difference between expenditure for the affordable imported pharmaceuticals sold and the expenditure for the respective reference pharmaceutical, taking into consideration statutory discounts (§ 129 (2) of the German Social Security Code, Book V (Sozialgesetzbuch, Fünftes Buch, SGB V)). This helps to reduce the general costs of healthcare. Dermapharm leverages its longstanding expertise in direct marketing and sales in Germany to import pharmaceuticals from EU member states for resale to pharmaceutical wholesalers and pharmacies in Germany.

According to INSIGHT Health, Dermapharm was Germany's fifth-largest parallel importer in terms of gross revenue in 2019 and it covered the majority of the prescription originator pharmaceuticals available on the German parallel import market.

Strategy

Dermapharm aims to systematically leverage not only organic but also external growth opportunities. By doing so, it hopes to continue to build on its positive performance of recent years and further expand the strong position of its three segments.

Dermapharm's growth strategy is based on three pillars:

1. expanding the product portfolio by bringing to market new, internally developed products;
2. increasing the Group's international presence;
3. successfully completing further acquisitions of products and businesses.

In order to expand its product portfolio, Dermapharm continually strives to develop and bring to market additional branded pharmaceuticals and other healthcare products. Dermapharm's product pipeline currently comprises over 50 ongoing development projects involving new products for the defined niche markets. The focus is on the following therapeutic areas: Dermatologics, Vitamins/minerals/enzymes, Women's healthcare products and Ophthalmologics. Moreover, we will continue to develop the technology of hyperthermic medical devices and press ahead with the development of a new hyperthermic medical device to treat pruritus. Dermapharm plans to leverage the existing development, manufacturing and marketing capacities to launch and market new products via its distribution organisation. The objective of Dermapharm's "Herbal extracts" segment is to leverage the Group's state-of-the-art facilities and partnerships with renowned universities and other partners to continue creating and developing new innovative and sustainable extracts.

With regard to its international presence, Dermapharm plans to market selected products from its existing product portfolio and to systematically launch new product developments at its international subsidiaries. In financial year 2019, Dermapharm formed additional subsidiaries in Spain and Japan to further its expansion efforts. Dermapharm made additional advances by acquiring Euromed and Fitvia as well as an equity investment in FYTA.

Obtaining new authorisations and acquiring products and companies has always been part of Dermapharm's business strategy. Since the Company's formation in 1991, Dermapharm has steadily expanded its product offering through successful acquisitions. The acquisition of the dermatology division of Bristol-Meyer Squibb in 2002 and the takeover of the therapeutics division of Jenapharm from Schering in 2004 enabled Dermapharm to enter new therapeutic areas and represent just a few examples of companies that have been successfully integrated. Dermapharm acquired the medical devices bite away® and Herpotherm® in September 2017. In 2018, this was followed by the acquisitions of Strathmann and Trommsdorff with their specialised portfolio of prescription pharmaceuticals and OTC products, which formed the sixth therapeutic area, "Pain treatment".

1.2 Group structure and interests

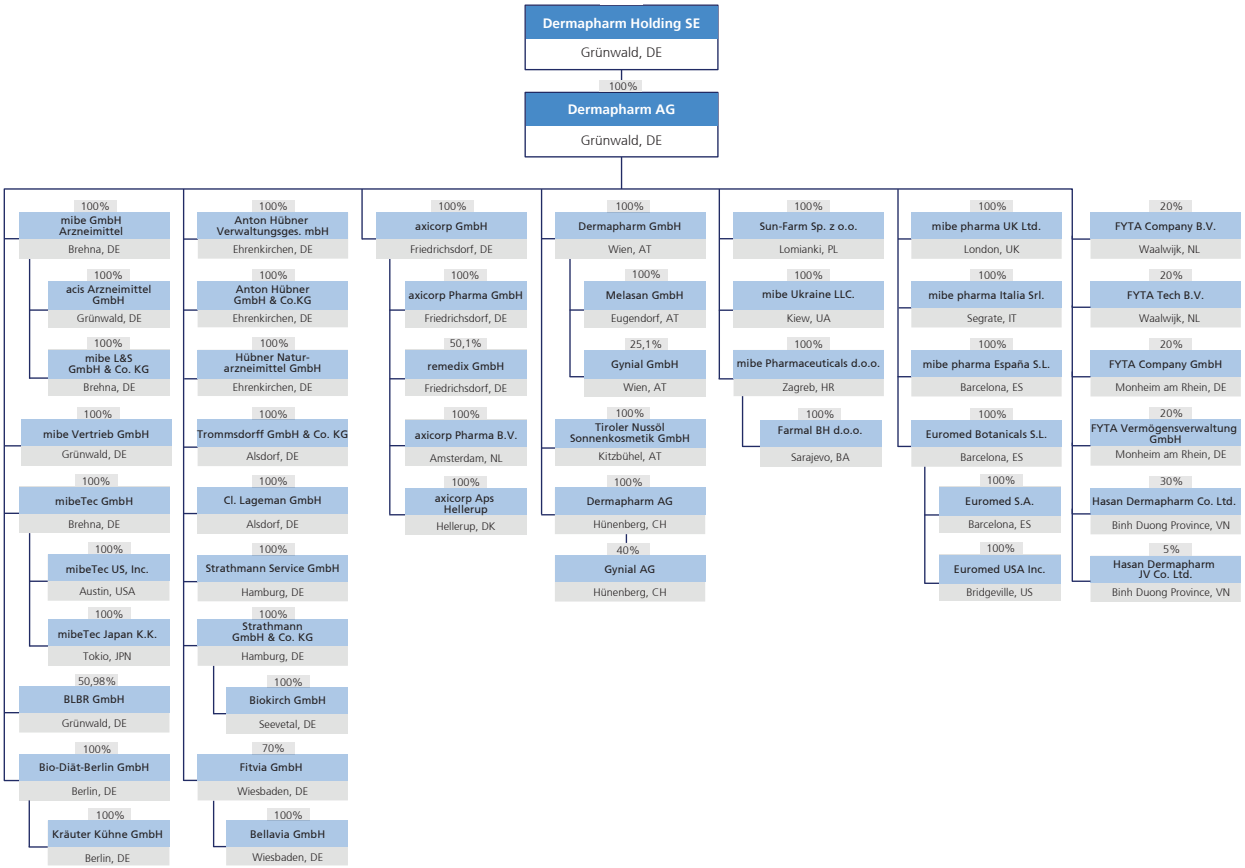
The Company is organised as a European company, or Societas Europaea (SE), in accordance with European law and thus is subject to the European legislation governing these types of companies, particularly Council Regulation on the Statute for a European Company (SE Regulation). As a company registered in Germany, the Company is also subject to German law. Where matters are not, or only partly, regulated by the SE Regulation, the Company is also subject to the regulations applicable to stock corporations under German law. The Company is therefore generally governed by German law subject to the provisions of the SE Regulation. Accordingly, the German Stock Corporation Act (Aktiengesetz, AktG) along with other laws applicable to German stock corporations, particularly the German Commercial Code (Handelsgesetzbuch, HGB), the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) and the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, WpÜG), can apply to the Company. German law (mainly AktG) in particular applies to the Company's capital measures (e.g. capital increases and decreases), the Company's Annual General Meetings and the Company's accounts.

Dermapharm Holding SE holds 100 % of the shares in Dermapharm AG and is the parent company of the Group. It essentially functions as a strategic holding company. The business operations of the Dermapharm Group are conducted by Dermapharm AG and its various subsidiaries.

The group of companies consolidated by Dermapharm includes all companies whose financial or business policies are subject to direct or indirect control by Dermapharm. In addition, Dermapharm holds interests in companies whose financial and business policies are subject to significant influence by the Company.

As at 31 December 2019, the Dermapharm Group comprises 49 companies, of which 25 are domiciled in Germany.

The following Group structure shows direct and indirect subsidiaries and associates as at the reporting date:



With its Group companies, Dermapharm has put in place all of the prerequisites for achieving long-term success. These include flexible company structures, a secure and broad customer base, international positioning with regional industry expertise and an entrepreneurial management structure.

1.3 Sites and employees

The Dermapharm Group operates development, production, and distribution sites in Germany – its largest sales market – as well as sites in Austria, Switzerland, the Netherlands, Italy, Spain, the United Kingdom, Croatia, Bosnia and Herzegovina, Poland, Ukraine and Japan.

The majority of all compounds from the "Branded pharmaceuticals and other healthcare products" segment are manufactured in the central production and logistics centre, mibe GmbH Arzneimittel in Brehna. This site is also responsible for centralised purchasing and for product supply to the subsidiaries.

In Austria and Poland, individual products are also produced for the local markets.

In Germany, Dermapharm's five distinct sales forces visit pharmacies, registered doctors and clinics to promote and distribute all branded pharmaceuticals and healthcare products. Depending on the areas of product application, these efforts are conducted very specifically according to the defined customer target groups. Herbal extracts are marketed on the basis of a "B2B business model". Parallel-imported originator preparations are also distributed through direct sales from a call centre.

Qualified employees are the basis for Dermapharm's long-term commercial success. In financial year 2019, an average of 1,853 employees worked for Dermapharm (previous year: 1,619 employees).

1.4 Management system and performance indicators

At the Group level, Dermapharm Holding SE has three segments: "Branded pharmaceuticals and other healthcare products", "Herbal extracts" and "Parallel import business". The Board of Management approves objectives for use in the business planning and management of the segments. Budgetary plans which are prepared annually for a period of three years translate these objectives into specific, measurable targets.

Regular reports to the Board of Management provide details on the performance of the three segments so that any potential unfavourable trends can be countered in a timely manner. In this way, the management system plays a role in ensuring that the Dermapharm Group continues to grow profitably.

Dermapharm manages its operations using selected financial performance indicators. The financial performance indicators are monitored continuously and are integrated into the monthly reporting to the Board of Management. The defined segments continually review the specified plan figures and compare them with the current business performance (plan to actual comparison). Based on this review, corresponding measures are derived from any deviations from the original revenue and EBITDA targets.

The key management metrics used by the Board of Management to measure the success of business activities are revenue and earnings before interest, taxes, depreciation and amortisation (EBITDA).

The following shows a reconciliation of EBITDA to Group earnings as presented in the income statement:

	Profit or loss for the period
+	Income tax expenses
=	Earnings before taxes (EBT)
+	Financial expenses
-	Financial income
+	Depreciation, amortisation and write-downs
=	**EBITDA**

1.5 Research and development

Dermapharm's focus is on developing preparations using active pharmaceutical ingredients which are generally no longer subject to industrial property rights. Hence, on account of its business model, Dermapharm specifically does not conduct any fundamental pharmaceutical research.

The foundation for profitable growth and the long-term success of the Company lies in continuously bringing to market new branded internally developed pharmaceuticals that enhance market competence in the key therapeutic areas and offering them at the best possible cost. Dermapharm is confident that its own expertise in product development is a key factor for the Group's success. This enables Dermapharm to retain control over the timing and costs of product development and allows it to devote itself to developing special projects, including niche products. The Group's in-house central development centre in Brehna plays a crucial role in this. We also award contract development projects and cooperation with external development partners.

Dermapharm continuously analyses the target markets covered by its product range. After identifying a potentially attractive pharmaceutical product, Dermapharm is able to carry out the key phases of the development and authorisation process itself, including the product development and sponsoring of clinical trials. Furthermore, Dermapharm has the necessary regulatory expertise in house in order to be able to carry out the

authorisation process itself. In doing so, it has access to the proven expertise of its development specialists, some of whom have over 25 years of experience in developing off-patent pharmaceuticals.

When possible, Group companies make use of national, but also as supranational, mostly EU-wide authorisation procedures to market newly developed products internationally.

2. Report on economic position

2.1 Macroeconomic and sector-specific environment

Macroeconomic environment

Economic momentum in the euro nations continued to wane in 2019, and, according the International Monetary Fund (IMF), the eurozone grew by only 1.2 % as a result, following growth of 1.9 % in the previous year. The IMF expects the eurozone to grow again slightly by 1.4 % in 2020. The growth rates of key economies in the eurozone – Germany, France, Italy and Spain, in particular – fell accordingly in 2019. Global trade conflicts and the sluggish automotive industry weighed on economic growth in Germany. The IMF expects the economy in Germany to grow by 1.2 % in 2020.

In light of the fact that the Group's business model in the healthcare market is aligned with relatively cyclical demand, the global economic environment generally has less of a direct impact on the Company's business performance than the respective regulatory conditions in the individual market regions.

Sector-specific environment

The pharmaceuticals and healthcare market is driven by key trends. These include demographic trends such as an increasingly ageing society, global population growth, rising health awareness and self-medication as well as advances in the medical field. Accordingly, the European pharmaceuticals market has grown continuously in recent years. According to information from the consultancy firm IQVIA (source: IMSVALOTC), the entire European pharmaceuticals market generated annual revenue of USD 264.8 billion by the end of the third quarter of 2019, meaning that the market volume declined slightly by 0.1 % compared to the same period in the previous year (MAT Q3 2018: USD 265.1 billion). Of that amount, USD 230.6 billion was attributable to prescription pharmaceuticals (MAT Q3 2018: USD 229.7 billion) and USD 34.2 billion to OTC pharmaceuticals (MAT Q3 2018: USD 35.4 billion).

Dermapharm's primary market, Germany, has a highly developed healthcare system with 148,601 registered physicians, 19,423 public pharmacies (in 2018 each) and 1,942 hospitals (in 2017). Because of this, Germany spends a larger share of its gross domestic product for healthcare than any other country in the European Union, and it has the second-highest per capita healthcare spending and the highest share of health spending covered by public funds in the European Union. According to IQVIA, the growth trend in the German pharmaceuticals market continued in the previous year. At the end of the third quarter of 2019, annual revenue in the German pharmaceuticals market increased slightly by 1.1 % to USD 47.3 billion (Q3 2018: USD 46.8 billion). Of that amount, USD 41.7 billion was attributable to prescription pharmaceuticals (MAT Q3 2018: USD 41.0 billion) and USD 5.6 billion to OTC pharmaceuticals (MAT Q3 2018: USD 5.7 billion). In the first nine months of 2019, revenue from off-patent pharmaceuticals without discounts from discount agreements increased by 10.9 % to EUR 6.7 billion (basis: manufacturer selling price) following EUR 5.5 billion in the prior-year period (excluding biosimilars). However, volume gains are often neutralised due to government intervention in pricing. As a result, a continued downward trend in prices, state-imposed mandatory discounts and steep discounts to health insurance organisations as a result of statutory discount agreement options between manufacturers and health insurance organisations continue to characterise this market.

Both the market for off-patent pharmaceuticals as well as the OTC market worldwide were marked by a high degree of consolidation in 2019. This primarily took the form of acquisitions and equity investments. In addition, several companies also exchanged or combined divisions in order to place greater focus on their core skills and to reinforce the relevant business lines. The continuous expiration of patent rights is among the drivers of growth in this sector. In addition, the markets for off-patent pharmaceuticals have not yet been fully penetrated and are expected to continue to grow against the backdrop of budgetary constraints stemming from the public debt crisis in the eurozone.

The framework agreement covering the supply of pharmaceuticals stipulates an import quota of 5 % in accordance with § 129 (2) of the German Social Security Code, Book V (Sozialgesetzbuch, Fünftes Buch, SGB V). This requires that pharmacists must generate at least 5 % of revenue from prescription pharmaceuticals sold under the healthcare system in Germany with pharmaceuticals imported from other EU member states. According to INSIGHT Health, in financial year 2019, revenue in the parallel imports market amounted to EUR 3.1 billion compared to EUR 2.9 billion in the previous year (basis: manufacturer selling prices). At 8.9 % of pharmacy sales in 2019, this revenue far surpassed the mandatory quota of 5 %, as in past years (previous year: 8.6 %). Thus, in 2019, revenue in the market suitable for imports increased by 7.8 %.

Regulatory environment

Reference pricing for pharmaceuticals

Reference pricing refers to maximum amounts for reimbursement of pharmaceutical prices by the statutory health insurance organisations. These amounts are set for groups of comparable pharmaceuticals. If doctors nonetheless prescribe a medication priced at a level above this reference amount, the patient must pay the difference in addition to the statutory supplementary payment.

Groups of comparable pharmaceuticals can be created according to various criteria. Therefore, there are three levels of comparability: Level 1 reference pricing groups comprise pharmaceuticals with the same active ingredients. Level 2 reference pricing groups comprise pharmaceuticals with active ingredients which are comparable in terms of pharmacology, particularly chemically, and which at the same time have comparable therapeutic effects. Level 3 reference pricing groups comprise pharmaceuticals which have different active ingredients but which have comparable therapeutic effects.

The health insurance organisations can also enter into a special discount agreement with the manufacturers to ensure that the pharmaceuticals priced higher than the reference prices are available to the patients at no extra cost.

Manufacturer discount

In Germany, pharmaceuticals companies are generally free to set their prices for pharmaceuticals. However, pharmaceuticals companies must grant manufacturer discounts on reimbursable pharmaceuticals to the statutory health insurance providers and to private health insurance providers.

For reimbursable pharmaceuticals with no reference price, a manufacturer discount of 7 % is applied to the manufacturer selling price (excl. VAT). If the product is an off-patent pharmaceutical with an identical active ingredient, this discount is only 6 % of the manufacturer selling price (excl. VAT).

An additional 10 % discount on the manufacturer selling price (excl. VAT) is also applied to off-patent pharmaceuticals with identical active ingredients (generics). Manufacturers can offset price reductions against the discount as long as they maintain the lower price for at least three years. For price reductions of 10 % or higher, the discount no longer applies.

Price moratorium

The price moratorium took effect in August 2010. Under the moratorium, statutory and private health insurance providers receive price discounts when pharmaceuticals manufacturers increase their selling price for reimbursable pharmaceuticals over the price level of 1 August 2009. This regulation does not apply to pharmaceuticals subject to reference pricing. For pharmaceuticals introduced after 1 August 2010, the price at their market introduction is applicable.

Legislators extended the price moratorium until the end of 2022. A price adjustment equivalent to the rate of inflation was introduced in July 2018.

Supplementary charge

Patients are generally required to pay a supplementary charge when prescription pharmaceuticals are prescribed. The supplementary charge for each pharmaceutical product is generally 10 %, with a minimum amount of EUR 5 and a maximum of EUR 10, not to exceed the cost of the pharmaceutical.

However, there is an option to exempt certain compounds from this mandatory supplementary charge. This applies when doctors and the patient together choose a particularly inexpensive pharmaceutical product with a price of at least 30 % below the reference price. A further option to reduce the supplementary charge by half or in full arises if the prescribed pharmaceutical is the object of a discount agreement entered into between the health insurance organisation and the pharmaceuticals manufacturer. Health insurance organisations can use this provision to pass along some or all of the savings from discount agreements to the patient. If doctors prescribe a medication priced at a level above this reference price, the patient must pay the difference in addition to the statutory supplementary charge.

Discount agreements with statutory and private health insurance providers

Since 2003, the laws have permitted health insurance organisations to enter into individual discount agreements for pharmaceuticals with manufacturers.

Furthermore, for pharmaceuticals priced above the reference price, they can also negotiate special discount agreements in order to continue to provide the patients with their usual therapy without incurring significant additional costs.

Since 2006, pharmacies have also been required to issue the precise pharmaceutical compound with identical active ingredients for which the patient's health insurance organisation has entered into a discount agreement. This applies unless the doctor indicates otherwise by adding the note "aut idem" to the prescription. The advantage for patients is that the supplementary charge may be reduced by half or waived entirely.

In the context of the provision of pharmaceuticals, the Pharmaceuticals Market Restructuring Act (Arzneimittelmarktneuordnungsgesetz, AMNOG) also permits the reimbursement of costs in individual cases. This means that patients can now choose a pharmaceutical compound other than the one covered in the discount agreement with their health insurance organisation or one of the three least expensive pharmaceuticals. If they do so, the health insurance organisation reimburses the costs only up to the amount which the health insurance organisation would have incurred for providing standard therapy. In other words, the patient bears any additional costs incurred due to the selection of another pharmaceutical.

International pharmaceuticals markets

The international markets are characterised by their own different local influences at the national level, mostly due to reference lists, reference prices, reimbursement codes and discounts.

New regulations for the parallel import business

The German Act for More Safety in the Supply of Pharmaceuticals (Gesetz für mehr Sicherheit in der Arzneimittelversorgung, GSAV) went into force in August 2019 and amended the affordability clause under § 129 (1) sentence 2 SGB V, eliminating "or at least EUR 15.00". Instead, "affordability" is now met only given a price differential to the price of the reference pharmaceutical of at least 15 % for a selling price of EUR 100, at least EUR 15 for a selling price from EUR 100 to EUR 300, and at least 5 % for a selling price of more than EUR 300.

Furthermore, effective 1 July 2019, the Master Agreement on the Supply of Pharmaceuticals (Rahmenvertrag über die Arzneimittelversorgung) in accordance with § 129 (2) SGB V stipulated a new savings target that is to be achieved by selling affordable imported pharmaceuticals. It is the difference between expenditure for the affordable imported pharmaceuticals sold and the expenditure for the respective reference pharmaceutical taking into consideration the statutory discounts and amount to 2 % of the imputed total cost. In addition, in the case of generic active ingredients not covered by discount agreements, the master agreement stipulates that the pharmacist is obligated to sell one of the four most affordable pharmaceutical registration numbers (Pharmazentralnummer, PZN).

2.2 Course of business

In financial year 2019, Dermapharm achieved its legal targets.

The following aspects were instrumental to that success:

- expansion of the product portfolio by bringing new, internally developed products into selected niche markets
- consistent utilisation of synergies within the Group
- a growing international presence by establishing Group subsidies or commencing operations in Spain and the United States as well as increasing sales with partners
- successful acquisitions and integration within the Group

Acquisitions

Acquisition of CFP Packaging GmbH

The material assets of CFP Packaging GmbH, Wiedemar, were acquired with effect from 1 January 2019. Essentially, by acquiring the company's assets, Dermapharm intends to gain access to the machinery and expertise in the field of special packaging for powder and liquid sticks as well as access to various customers based on long-term supply agreements still in force. The company's assets have now been integrated with mibe GmbH Arzneimittel GmbH and are allocated to the "Branded pharmaceuticals and other healthcare products" segment. The transaction constituted a business combination as defined under IFRS 3.

The date of initial consolidated was 1 January 2019.

Acquisition of the Euromed Group

With effect from 3 January 2019, Dermapharm has acquired all shares in the Spanish company Euromed Botanicals S.L., Barcelona, Spain, and its subsidiaries Euromed S.A., Barcelona, Spain, and Euromed USA Inc., Bridgeville, United States. Euromed is a leading producer of herbal extracts and natural active ingredients which are needed as precursors in the manufacturing of phytopharmaceuticals (herbal pharmaceuticals), nutraceuticals (functional foods) and cosmetics products. Since being formed in 1971, the company has gained almost 50 years of expertise and reputation in the field of herbal extracts. The complete traceability of production activities, starting with the seed selection through to the finished extract, is unique. At present, the company operates two state-of-the-art production facilities in Spain near Barcelona and Murcia with capacities for future growth, as well as a drying

plant in Florida, USA. The group is allocated to the newly formed "Herbal extracts" segment. The transaction constituted a business combination as defined under IFRS 3.

The Euromed Group was included in the group of consolidated companies for the first time on 1 January 2019.

Fitvia

On 6 June 2019, Dermapharm AG entered into an agreement to purchase a 70.0 % majority interest in Fitvia GmbH, domiciled in Wiesbaden. Approval from the antitrust authorities was received on 5 July 2019, whereby Dermapharm AG obtained control over Fitvia GmbH. As a practical expedient, 1 July 2019 was selected as the date to include the company in the consolidated financial statements for the first time. Fitvia was formed in 2014 and is a new brand that promotes healthy living throughout Europe. In addition to tea, the company sells food and food supplements. Its products are aimed at a clearly defined female target group aged between 18 and 39. These consumers constitute one of the largest groups of social media users worldwide. Fitvia markets its products exclusively via social media, and has worked with influencers on the most popular platforms such as Instagram to build up a very strong brand in Europe in only a short time. Fitvia currently sells its products to more than half a million customers in several European countries including Germany, Italy, France, Spain and Austria. Dermapharm's investment in Fitvia is a targeted addition to its own value chain and expands its expertise in the growing market for healthy eating. The transaction constituted a business combination as defined under IFRS 3. Fitvia is allocated to the "Branded pharmaceuticals and other healthcare products" segment.

Fitvia was consolidated for the first time as of July 1, 2019.

Acquisition of shares

Acquisition of interest in the FYTA group

Pursuant to the agreement dated 4 March 2019, Dermapharm acquired 20.0 % of shares in FYTA Company B.V. and FYTA Tech B.V. (each domiciled in Waalwijk, Netherlands), as well as FYTA Company GmbH and FYTA Vermögensverwaltung GmbH (each domiciled in Monheim, Germany). The FYTA group specialises in the production of medicinal cannabis for pharmaceutical applications. The authorisation required for medicinal cannabis was already granted on 25 February 2019 by the Dutch supervisory authority CIBG. This covers the production of approximately 12 tonnes of medicinal cannabis per year, and may be expanded. At present, FYTA operates its own state-of-the-art indoor production facility in Waalwijk, at which up to 25 tonnes of medicinal cannabis can be produced per year. The agreed purchase price was EUR 60,000 thousand, including escalation clauses. The transaction also includes the assignment of 49.9 % of the shares in remedix (domiciled in Friedrichsdorf, Germany) to UWF Beteiligungsgesellschaft mbH (domiciled in Monheim, Germany). As a re-importer in the pharmaceuticals sector, remedix specialises in EU narcotics and is licensed by the Federal Opium Agency to trade in narcotics. In future, remedix GmbH will act as a joint platform between Dermapharm and the FYTA group for importing medicinal cannabis products to Germany and marketing them. The FYTA shares will be allocated to the new segment "Herbal extracts".

The companies of the FYTA group were included in the Dermapharm's consolidated financial statements for the first time as at 31 March 2019, under "investments accounted for using the equity method".

Comparison to outlook in 2018

In the report on expected developments in the 2018 combined management report, the Board of Management forecasted positive overall business performance for financial year 2019. Consolidated revenue is expected to be up year on year by 14 % to 19 %, and EBITDA is expected to increase by 17 % to 22 % over the figure for financial year 2018. These forecasted growth rates were based on organic growth along with the introduction of compounds developed in-house and the new acquisition of Euromed included in the forecast.

Overall, the Group's performance in financial year 2019 was better than expected, with the forecast for both revenue and EBITDA being exceeded.

The financial performance indicators for the Dermapharm Group developed as follows in financial year 2019:

Financial performance indicators (EUR million)	2019	2018	+/- %
Consolidated revenue	**700.9**	**572.4**	**22.4 %**
Branded pharmaceuticals and other healthcare products	385.1	334.7	15.1 %
Parallel import business	243.5	237.8	2.4 %
Herbal extracts	72.3	-	-
Adjusted EBITDA*	**177.6**	**143.4**	**23.8 %**
Branded pharmaceuticals and other healthcare products	158.5	136.6	16.0 %
Parallel import business	8.3	9.0	(7.8) %
Herbal extracts	16.4	-	-
Adjusted EBITDA margin*	**25.3 %**	**25.1 %**	**-**
Branded pharmaceuticals and other healthcare products	41.2 %	40.8 %	-
Parallel import business	3.4 %	3.8 %	-
Herbal extracts	22.7 %	-	-
Unadjusted EBITDA	**168.5**	**139.6**	**20.7 %**
Branded pharmaceuticals and other healthcare products	153.0	132.8	15.2 %
Parallel import business	8.3	9.0	(7.8 %)
Herbal extracts	12.8	-	-
Unadjusted EBITDA margin	**24.0 %**	**24.4 %**	**-**
Branded pharmaceuticals and other healthcare products	39.7 %	39.7 %	-
Parallel import business	3.4 %	3.8 %	-
Herbal extracts	17.7 %	-	-

* 2019 EBITDA was adjusted for non-recurring expenses and restructuring expenses amounting to EUR 9.1 million.
2018 EBITDA was adjusted for non-recurring expenses amounting to EUR 3.8 million.

Composition of adjusted non-recurring expenses and provisions

The non-recurring expenses amounted to EUR 9.1 million and comprised the following in financial year 2019:

- Reductions of inventories in connection with the "carrying amount step-up" for the inventories recognised as at the acquisition date due to fair value measurement as part of the purchase price allocation (IFRS 3) of Euromed (EUR 3.6 million). Given their continually rising significance due to an increase in acquisition activities, the effects of the purchase price allocation relating to inventories will not be eliminated until financial year 2019.
- Non-recurring expenses of EUR 3.0 million and EUR 0.5 million in connection with the acquisition of Euromed and Fitvia, respectively.
- Consulting services in connection with further acquisition projects amounting to EUR 0.4 million.
- Restructuring expenses incurred in relation to Bio-Diät Berlin and its subsidiary Kräuter Kühne amounting to EUR 1.6 million.

The non-recurring expenses amounted to EUR 3.8 million and comprised the following in financial year 2018:

- Non-recurring expenses in connection with the preparations for the IPO amounting to EUR 1.4 million.
- Non-recurring expenses of EUR 0.5 million and EUR 1.9 million in connection with the acquisition of Strathmann and Trommsdorff, respectively.

Details on the development of the financial performance indicators are included in the following explanations of the financial performance.

2.3 Financial position, financial performance and cash flows

2.3.1 Financial performance of the Group

Income statement

EUR thousand	2019	2018
Revenue	700,879	572,424
Change in inventories	13,779	4,264
Own work capitalised	12,632	10,200
Other operating income	8,508	7,767
Cost of materials	(343,570)	(287,124)
Personnel expenses	(115,923)	(92,257)
Depreciation and amortisation	(50,125)	(30,327)
Other operating expenses	(106,667)	(77,438)
Operating result	**119,513**	**107,509**
Share of profit/loss of companies accounted for using the equity method, after tax	(1,111)	1,796
Financial income	2,736	3,949
Financial expense	(11,073)	(9,018)
Financial result	**(9,448)**	**(3,272)**
Earnings before taxes	**110,065**	**104,237**
Income taxes	(32,254)	(29,011)
Profit or loss for the period	**77,811**	**75,226**

Revenue and earnings performance of the Group

In financial year 2019, Dermapharm once again lifted **revenue** year on year. Consolidated revenue reported in 2019 increased by 22.4 % compared to the previous year to EUR 700.9 million (previous year: EUR 572.4 million).

The increase was due primarily to the acquisitions of Euromed and Fitvia, which were included in the Dermapharm Group's basis of consolidation for the first time in the period under review. The Euromed shares were already initially consolidated as at 1 January 2019. The 70 % majority stake in Fitvia was consolidated for the first time as at 1 July 2019. In addition, in financial year 2019, the revenue of Trommsdorff GmbH & Co. KG was included for the entire financial year for the first time (previous year: only 11 months).

In addition, Dermapharm also generated organic growth by successfully implementing its strategy. Dermapharm continued to focus on selected niche markets which depend largely on blockbuster products – i.e., individual products which account for an above-average share of revenue – where it realised increased volumes.

Growth was driven primarily by compounds unrelated to those at the centre of ingredient-related discount agreements with health insurance organisations or those characterised by unique features. The product portfolio moreover contains a high proportion of high-margin products paid for by end consumers themselves, as well as a large share of prescription products in this area.

As in previous years, various development projects were recognised by the German Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte, BfArM) or the corresponding international authorities in financial year 2019. As a result, Dermapharm successfully introduced further new compounds in various indication groups, and expanded the range by adding individual dosage forms.

Development costs recognised under **own work capitalised** amounted to EUR 12.6 million in financial year 2019 (previous year: EUR 10.2 million). The ratio of development costs to revenue amounted to 1.8 % and was thus at the same level as in the previous year (1.8 %). Development costs of EUR 13.2 million (previous year: EUR 10.4 million) were capitalised for new products in financial year 2019. This represents a capitalisation ratio of 100 % (previous year: 100 %). In financial year 2019, EUR 0.5 million (previous year: EUR 4.9 million) of capitalised development costs were written down unscheduled. Dermapharm placed great emphasis on product development, and in financial year 2019 an average of 85 employees were working in this area (previous year: 79).

Other operating income amounted to EUR 8.5 million in financial year 2019 (previous year: EUR 7.8 million) and was significantly impacted by exchange rate effects and the reversal of investment grants.

The increase in revenue in the reporting year and the first-time consolidation of Euromed and Fitvia resulted in a higher **cost of materials** in absolute terms of EUR 343.6 million in financial year 2019 (previous year: EUR 287.1 million). Compared to the higher revenue, the cost of materials saw a disproportionately low increase. The main reasons for this were better purchasing terms, a further shift of products to in-house manufacturing and, above all, the utilisation of intra-Group synergies. Accordingly, the cost of materials ratio (including changes in inventories) improved to 47.1 % (previous year: 49.4 %).

Personnel expenses amounted to EUR 115.9 million in financial year 2019 (previous year: EUR 92.3 million). The increase is due primarily to the first-time inclusion of the personnel expenses of the acquisitions of CFP Packaging, Euromed and Fitvia. It was also attributable to the higher administrative requirements associated with the IPO and positive business performance. Non-recurring expenses amounting to EUR 1.0 million were incurred in relation to restructuring expenses for Bio-Diät Berlin and its subsidiary Kräuter Kühne. The ratio of personnel expenses to revenue stood at 16.5 % (previous year: 16.1 %).

Depreciation and amortisation amounted to EUR 50.1 million in financial year 2019 (previous year: EUR 30.3 million). The increase is attributable primarily to depreciation and amortisation on assets from the purchase price allocation (PPA depreciation and amortisation) in connection with the Euromed and Fitvia acquisitions, as well as their first-time inclusion in the group of consolidated companies. Furthermore, EUR 0.5 million (previous year: EUR 4.9 million) of capitalised development costs were written down. In addition, Dermapharm adopted the new standard, IFRS 16 "Leases" for the first time in the financial year beginning on 1 January 2019, resulting in an increase in depreciation by EUR 4.0 million.

Other operating expenses amounted to EUR 106.7 million in financial year 2019 (previous year: EUR 77.4 million). The increase was due primarily to the first-time inclusion of the newly acquired companies Euromed and Fitvia in the group of consolidated companies. In addition, Dermapharm adopted the new standard, IFRS 16 "Leases" for the first time in the financial year beginning on 1 January 2019 This resulted in a decline in other operating expenses amounting to EUR 4.1 million. Non-recurring consulting fees of EUR 3.9 million were incurred in connection with acquiring these companies and other M&A activities. Non-recurring expenses amounting to EUR 0.6 million were incurred in relation to restructuring expenses for Bio-Diät Berlin and its subsidiary Kräuter Kühne. Expenses in the area of development also increased because of variations in the

amounts of expenses incurred according to which phase the individual phases were in. These development costs are neutralised through the item own work capitalised. The ratio of other operating expenses to revenue stood at 15.2 % (previous year: 13.5 %).

Adjusted EBITDA increased by 23.8 % to EUR 177.6 million in financial year 2019 (previous year: EUR 143.4 million). This figure was adjusted for non-recurring expenses incurred in connection with the reduction in inventories and the "step-up of the carrying amount" of Euromed's existing inventories as at the transaction date. In addition, non-recurring expenses in connection with the acquisition of Euromed and Fitvia, consultancy services in connection with further M&A activities and restructuring costs for Bio-Diät Berlin and its subsidiary Kräuter Kühne were also taken into account. The total amount of these expenses was EUR 9.1 million. Accordingly, Dermapharm lifted its **adjusted EBITDA margin** to 25.3 % (previous year: 25.1 %).

Prior to adjustment, **EBITDA** amounted to EUR 168.5 million in financial year 2019 (previous year: EUR 139.6 million). The **unadjusted EBITDA margin** thus fell slightly by 0.4 % to 24.0 % (previous year: 24.4 %).

EBITDA can be reconciled to Group earnings as follows:

EUR thousand	2019	2018
EBITDA	**168,528**	**139,632**
of which share of profit/loss of companies using the equity method, after tax	*(1,111)*	*1,796*
Depreciation and amortisation	(50,124)	(30,327)
Financial income	2,736	3,949
Financial expenses	(11,073)	(9,018)
Earnings before taxes (EBT)	**110,066**	**104,237**
Income tax expenses	(32,254)	(29,011)
Profit or loss for the period	**77,811**	**75,226**

Financial income fell to EUR 2.7 million in financial year 2019 (previous year: EUR 3.9 million). This decrease was due primarily to a receivable from Themis Beteiligungs-AG in connection with one cross-currency swap concluded by Dermapharm AG. The cross-currency swaps are described in greater detail under the financial expenses section below.

At the same time, **financial expenses** increased to EUR 11.1 million in financial year 2019 (previous year: EUR 9.0 million). Due to new financing arrangements for the acquisitions and the associated restructuring of liabilities to banks (please refer to section 2.3.3 for further details), interest expenses for loans and promissory note loans increased to EUR 7.4 million (previous year: EUR 4.2 million). In addition, Dermapharm adopted the new standard, IFRS 16 "Leases" for the first time in the financial year beginning on 1 January 2019 This resulted in an increase in interest expenses amounting to EUR 0.3 million.

One cross-currency swap which Dermapharm AG had already concluded with UniCredit Bank AG in 2010 had a negative impact on financial expenses (now by only EUR 30 thousand; previous year: EUR 1.8 million). The term expires in April 2020. The Swiss franc is the reference currency for this swap. Due to the EUR/CHF exchange rate in 2014 and the floor of 1.20 set for the EUR/CHF exchange rate by the Swiss National Bank (SNB) in September 2011, the maximum exchange rate risk amounted to EUR 1.4 million per year. However, the SNB reversed this minimum exchange rate on 16 January 2015, which may result in higher annual interest expenses.

Dermapharm AG already filed a lawsuit against UniCredit with the Regional Court (Landgericht) of Munich in December 2011. Dermapharm calls for the rescission of this cross-currency swap, as well as one that expired in April 2018, in addition to claiming compensation for all damages in connection with these swaps. Dermapharm takes the view that UniCredit acted in breach of its duty to properly advise Dermapharm concerning the risks associated with these transactions. At 31 December 2019, the negative fair value of the swap with UniCredit (i.e., the amount of Dermapharm's future payment obligations assumed as at this date) amounted to EUR 1.0 million (previous year: EUR 2.6 million) and was reported under other financial liabilities in the consolidated statement of financial position.

The action was dismissed in the first two instances on 6 July 2016. The Group has filed an appeal against denial of leave to appeal with the German Federal Supreme Court. This appeal was granted and the action was referred back to the Higher Regional Court. Due to the current coronavirus pandemic, it is not possible to estimate when the proceedings will be resumed and decided by the Higher Regional Court.

Dermapharm AG and Themis Beteiligungs-AG entered into an indemnity agreement on 21 December 2015 under which Dermapharm cedes its claims against UniCredit to Themis Beteiligungs-AG. In return, Themis Beteiligungs-AG agreed in 2015 to assume payments under the cross-currency swap from Dermapharm to UniCredit along with legal fees in connection with the courts unless covered under a provision recognised by Dermapharm AG. In financial year 2019, all claims levelled by UniCredit against Dermapharm AG were passed on to Themis Beteiligungs-AG. Accordingly, Dermapharm expects there will be no charges in connection with these agreements.

Earnings before taxes (EBT) amounted to EUR 110.1 million in financial year 2019 (previous year: EUR 104.2 million). However, the EBT margin decreased to 15.7 % (previous year: 18.2 %).

Income tax expenses decreased to EUR 32.3 million in the 2019 reporting period (previous year: EUR 29.0 million).

Prior to adjustment, **profit for the period** amounted to EUR 77.8 million in financial year 2019 (previous year: EUR 75.2 million).

Segment reporting

Internally, the Board of Management manages the Company through its "Branded pharmaceuticals and other healthcare products", "Parallel import business" and "Herbal extracts" segments.

Segment reporting uses key performance indicators for the Group's individual divisions. There are only limited number of transactions entered into for the provision of goods and services between the individual divisions which are reported as intra-segment revenue. The reconciliation column shows expenses incurred by Dermapharm Holding SE for services provided to the reporting segments through its role as the parent company, as it performs no operational activities.

Any transactions entered into for the provision of goods and services within the segments are reported on a consolidated basis. The exchange of goods and/or services between the segments was conducted at arm's-length prices.

Revenue and EBITDA are the key indicators for assessing and managing the divisions' financial performance.

Overview of segment reporting

The following tables show the changes in the performance indicators reported internally to Dermapharm's Board of Management by divisions.

2019 EUR thousand	Branded pharmaceuticals and other healthcare products	Parallel import business	Herbal extracts*	Reconciliation / Group holding company	Group
Revenue	387,386	243,462	72,302	(2,272)	700,879
of which intra-segment revenue	2,239	-	33	(2,272)	-
Revenue from external customers	385,147	243,462	72,269	-	700,879
Revenue growth	15 %	2 %	-	-	22 %
EBITDA	153,037	8,251	12,824	(5,584)	168,528
of which earnings from investments accounted for using the equity method	1,792	-	(2,902)	-	(1,111)
EBITDA margin	40 %	3 %	18 %	-	24 %

*new segment as of January 2019

2018 EUR thousand	Branded pharmaceuticals and other healthcare products	Parallel import business	Reconciliation / Group holding company	Group
Revenue	336,047	237,768	4,274	578,090
of which intra-segment revenue	1,389	2	4,274	5,666
Revenue from external customers	334,658	237,766	-	572,424
Revenue growth	49 %	(2 %)	-	23 %
EBITDA	132,817	9,043	(2,227)	139,632
of which earnings from investments accounted for using the equity method	1,796	-	-	1,796
EBITDA margin	40 %	4 %	-	24 %

Revenue and earnings performance in the "Branded pharmaceuticals and other healthcare products" segment

Revenue in the "Branded pharmaceuticals and other healthcare products" segment reported in financial year 2019 increased by 15.3 % compared to the previous year to EUR 385.1 million (previous year: EUR 334.7 million).

The increase was attributable primarily to organic growth based on increased volumes, and Dermapharm's continued strategic focus on selected niche markets, while remaining independent of blockbuster products. Growth was driven primarily by compounds unrelated to those at the centre of ingredient-related discount agreements or those characterised by unique features. Dermapharm's German companies were nonetheless able to renew a selected number of strategically important discount agreements with well-known statutory health insurance organisations or enter into new agreements. Generally speaking, however, measures were taken to keep the Company's dependency on low-margin discount agreements with health insurance organisations at a minimum with a balanced product portfolio. In addition, it contains a high proportion of high-margin products paid for by end consumers themselves, as well as a large share of prescription products in this area. Revenue increased further year on year for selected compounds, allowing stronger earnings to be generated.

As in previous years, various development projects were recognised by the German Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte, BfArM) or the corresponding international authorities in 2019, and the products were successfully brought to market.

The Fitvia acquisition, which closed in July 2019 and is allocated to the "Branded pharmaceuticals and other healthcare products" segment, was included in the Group's basis of consolidation for the first time in the period under review. The 70 % majority stake in Fitvia was consolidated for the first time as at 1 July 2019. Accordingly, the company's contributions to revenue and earnings were not included in the consolidated net profit until July 2019.

Adjusted EBITDA increased by 16.0 % to EUR 158.5 million in financial year 2019 (previous year: EUR 136.6 million). The non-recurring expenses attributable to this segment in connection with the acquisition of Euromed and Fitvia, consultancy services in connection with further M&A activities and restructuring costs for Bio-Diät Berlin and its subsidiary Kräuter Kühne amounted to EUR 5.5 million in total. Accordingly, Dermapharm lifted its **adjusted EBITDA margin** to 41.2 % (previous year: 40.8 %).

Unadjusted EBITDA, as reported, increased by 15.2 % to EUR 153.0 million in financial year 2019 (previous year: EUR 132.8 million). This increase was based mainly on the change in gross profit (+17.3 %), which was due to consistent revenue growth and simultaneous reductions in the cost of materials. At 39.7 % (previous year: 39.7 %), the division's **unadjusted EBITDA margin** was stable year on year.

Revenue and earnings performance of the "Parallel import business"

Revenue in the "Parallel import business" segment reported in financial year 2019 rose by 2.4 % to EUR 243.5 million (previous year: EUR 237.8 million).

The increase in revenue was due mainly to rising demand during the financial year for parallel imports of originator preparations to meet government import quotas and robust supply and distribution capabilities at axicorp. According to the market research firm INSIGHT Health, axicorp gained a market share of 8.9 %, thereby establishing itself among Germany's top five importers.

EBITDA reported in the "Parallel import business" segment fell by 7.8 % to EUR 8.3 million in financial year 2019 (previous year: EUR 9.0 million). This was primarily attributable to the increase in health insurers' calls for tenders for discount

agreements on lucrative originator preparations with patents approaching expiry. In order to remain competitive, the importers must also participate in these tenders, although this weighs on product margins. At the same time, further margin pressure was created by the "affordability clause" (which was recently modified in August 2019; please refer to section 2.1 Sector-specific environment). The segment`s **EBITDA margin** thus fell to 3.4 % (previous year: 3.8 %).

Revenue and earnings performance of the "Herbal extracts" segment (since January 2019)

Euromed's revenue, which was reported under the **"Herbal extracts" segment** for the first time in financial year 2019, amounted to EUR 72.3 million. This revenue resulted primarily from growth in revenue for the four most significant products for international customers in the EMEA (Europe, Middle East, Africa) and Americas markets. The Group's data thus reflect the expected 5-year growth potential in the market for herbal extracts and nutraceuticals which Dermapharm serves.

The **adjusted EBITDA**, which took account of Euromed's performance and the negative result from the equity investment in the FYTA Group (equity method) amounted to EUR 16.4 million in financial year 2019. The non-recurring expenses attributable to this segment, incurred in connection with the reduction in inventories and the "step-up of the carrying amount" of Euromed's existing inventories as at the transaction date, amounted to EUR 3.6 million. Accordingly, the **adjusted EBITDA margin** was 22.7 %.

The segment`s **unadjusted EBITDA**, as reported, which took account of Euromed's performance and the negative result from the equity investment in the FYTA Group (equity method) amounted to EUR 12.8 million. Thus, the **unadjusted EBITDA margin** was 17.7 %.

2.3.2 Financial position of the Group

Consolidated statement of financial position as at 31 December 2019 and 31 December 2018

Assets **EUR thousand**	**31 December 2019**	**31 December 2018**
Non-current assets		
Intangible assets	293,031	189,935
Goodwill	202,245	54,622
Property, plant and equipment	132,585	80,874
Investments accounted for using the equity method	62,113	3,786
Equity investments	395	382
Other non-current financial assets	1,562	3,706
Deferred tax assets	-	39
Total non-current assets	**691,930**	**333,343**
Current assets		
Inventories	175,643	116,966
Trade receivables	48,879	34,124
Other current financial assets	6,040	1,365
Other current assets	5,396	4,272
Tax assets	231	1,990
Cash and cash equivalents	114,956	212,520
Non-current assets held for sale	1,796	-
Total current assets	**352,941**	**371,238**
Total assets	**1,044,871**	**704,581**

Equity and liabilities EUR thousand	31 December 2019	31 December 2018
Equity		
Issued capital	53,840	53,840
Capital reserves	92,754	100,790
Retained earnings	139,067	100,993
Other reserves	(7,012)	(3,173)
Equity attributable to owners of parent	**278,649**	**252,449**
Non-controlling interests	5,841	3,636
Total equity	**284,490**	**256,085**
Non-current liabilities		
Provisions for employee benefits	56,976	50,726
Non-current financial liabilities	543,347	232,743
Other non-current financial liabilities	18,684	3,395
Other non-current liabilities	11,915	10,783
Deferred tax liabilities	27,038	4,452
Total non-current liabilities	**657,960**	**302,098**
Current liabilities		
Other provisions	16,238	8,586
Current financial liabilities	11,264	71,577
Trade payables	35,355	28,181
Other current financial liabilities	7,079	6
Other current liabilities	26,571	15,016
Tax liabilities	5,914	23,032
Total current liabilities	**102,421**	**146,398**
Total equity and liabilities	**1,044,871**	**704,581**

In addition to the items presented in the statement of financial position, the three statement of financial position performance indicators shown below changed as follows:

Net debt (non-current and current financial liabilities as well as other non-current and current financial liabilities less cash and cash equivalents) increased to EUR 465.4 million as at 31 December 2019 (31 December 2018: EUR 95.2 million). The financing agreements stipulate a right for the respective investor to withdraw the promissory note loan or bank loan upon a change of control. Further information is presented in section 2.3.3 Cash flows of the Group.

Accordingly, the ratio of net debt to the adjusted EBITDA (leverage) rose to 2.6 in the 2019 reporting year (previous year: 0.7).

At 31 December 2019, the equity ratio amounted to 27.2 % (31 December 2018: 36.3 %). The equity ratio was influenced mainly by the acquisitions of Euromed, Fitvia and FYTA and the associated increase in total assets.

The financial position of the Dermapharm Group developed as shown below in financial year 2019:

The **total assets** increased to EUR 1,044.9 million as at 31 December 2019 (31 December 2018: EUR 704.6 million).

On the asset side of the statement of financial position, intangible assets increased to EUR 293.0 million as at 31 December 2019 (31 December 2018: EUR 190.0 million). This increase is due to the newly acquired companies Euromed and Fitvia and the intangible assets identified as part of the purchase price allocation. These transactions resulted in an increase in intangible assets for trademarks and customer relationships amounting to EUR 103.7 million. Goodwill of EUR 202.2 million was added to intangible assets as at 31 December 2019 (31 December 2018: EUR 54.6 million). The acquisition of the companies Euromed and Fitvia led to an increase of EUR 147.6 million. In addition, development costs of EUR 13.2 million (previous year: EUR 10.4 million) were capitalised as internally generated intangible assets in financial year 2019.

Property, plant and equipment increased to EUR 132.6 million as at 31 December 2019 (31 December 2018: EUR 80.9 million). The increase was due primarily to the acquisitions of CFP Packaging, Euromed and Fitvia and the expansion of production and logistics capacities at the subsidiaries mibe GmbH Arzneimittel, Germany, and Melasan GmbH, Austria. In addition, the adoption of the new standard, IFRS 16 "Leases" for the first time in the financial year beginning on 1 January 2019, resulted in the recognition of right-of-use assets by the lessee (Dermapharm) amounting to EUR 12.6 million as at the 2019 reporting date.

Investments accounted for using the equity method increased to EUR 62.1 million as at 31 December 2019 (31 December 2018: EUR 3.8 million). Six associates (31 December 2018: two) were accounted for in the consolidated financial statements using the equity method.

- Gynial GmbH, Vienna, Austria: Dermapharm GmbH, Vienna, acquired a 25.1 % interest in Gynial GmbH, Vienna, in 2015. Gynial focuses on products supporting the physical health and the well-being of women with an emphasis on prophylactic measures. Gynial is purely a sales company and does not operate any production facilities. Its strategic objective is to gradually shift more existing job order productions from third-party suppliers to mibe GmbH Arzneimittel, which already has a manufacturing area for contraceptives, thus expanding value creation within production. Furthermore, Gynial GmbH can benefit from future developments of the Group within the women's health sector. The carrying amount of the equity investment amounted to EUR 1.6 million as at 31 December 2019 (31 December 2018: EUR 1.4 million).

- Hasan Dermapharm Co. Ltd, Saigon, Vietnam: In financial year 2007, Dermapharm AG invested in Hasan Dermapharm Co. Ltd. Currently, Dermapharm holds 30 % of the company. Vietnam is characterised by an open market with the highest growth rate in southeast Asia. Hasan Pharma operates a WHO-GMP certified production plant capable of producing nearly all pharmaceuticals sold on the Vietnamese market. Dermapharm's contribution is the delivery of dossiers, which will be adjusted to Vietnamese standards and submitted to the local regulatory authority. Once the relevant approvals have been granted, the pharmaceuticals are produced for the local market. However, preparations that have been produced under license are distributed at higher prices than products produced only locally. The carrying amount of the equity investment amounted to EUR 2.3 million as at 31 December 2019 (31 December 2018: EUR 2.4 million).

- FYTA Group: On 4 March 2019, Dermapharm AG acquired an equity investment in FYTA Company B.V. and FYTA Tech B.V. (each domiciled in Waalwijk, Netherlands), as well as FYTA Company GmbH and FYTA Vermögensverwaltung GmbH (each domiciled in Monheim, Germany). As a result, Dermapharm AG holds a 20.0 % interest in the companies specialised in the production of medicinal cannabis for pharmaceutical applications. At present, FYTA operates its own state-of-the-art indoor production facility in Waalwijk, at which up to 25 tonnes of medicinal cannabis can be produced per year. The transaction also includes the assignment of 49.9 % of the shares in the wholly owned axicorp subsidiary remedix GmbH (domiciled in Friedrichsdorf, Germany) to UWF Beteiligungsgesellschaft mbH (domiciled in Monheim, Germany). As a re-importer in the pharmaceuticals sector, remedix specialises in EU narcotics and is licensed by the Federal Opium Agency to trade in narcotics. In future, remedix will act as a joint platform between Dermapharm and the FYTA companies for importing medicinal cannabis products to Germany and marketing them. The carrying amount of the equity investment amounted to EUR 58.2 million as at 31 December 2019.

Other non-current financial assets decreased to EUR 1.6 million as at 31 December 2019 (31 December 2018: EUR 3.7 million). They include a purchase option for a commercial property of the Spanish subsidiary Euromed in the amount of EUR 0.9 million (31 December 2018: EUR 0 million). The claim of Dermapharm AG against Themis Beteiligungs-AG in connection with a currency derivative in the amount of EUR 2.6 million as of 31 December 2018 no longer exists as of 31 December 2019.

Inventories increased to EUR 175.6 million as at 31 December 2019 (31 December 2018: EUR 117.0 million). This development was attributable in particular to the first-time consolidation of Euromed's inventories into the "Herbal extracts" segment. The increase in inventories in the "Branded pharmaceuticals and other healthcare products" segment was attributable primarily to the expansion of the product portfolio in the individual Group companies, the initial consolidation of Fitvia, and ensuring adequate inventory levels. No inventories were pledged as securities for liabilities at the end of financial years 2019 and 2018.

Trade receivables increased to EUR 48.9 million as at 31 December 2019 (31 December 2018: EUR 34.1 million). The increase was based mainly on the first-time consolidation of Euromed and Fitvia, as well as the effects related to the reporting date and the cash flows deriving from those effects. Receivables primarily comprise those to wholesalers and pharmacies in Germany. In Germany, the Group companies have a base of solvent customers with good credit ratings. Defaults are the exception in the "Branded pharmaceuticals and other healthcare products" segment. Therefore, no commercial credit insurance policies have been taken out. To minimise default risk, the Group has adequate debtor management policies in place. In addition, Dermapharm always obtains information on the credit quality of its customers before entering into new business transactions.

Other current financial assets increased to EUR 6.0 million as at 31 December 2019 (31 December 2018: EUR 1.4 million). These essentially comprised a claim by Dermapharm AG against Themis Beteiligungs-AG amounting to EUR 1.0 million (31 December 2018: EUR 2.6 million) in connection with a cross-currency derivative. In addition, this item includes a receivable from Hasan Dermapharm Co., Ltd, Saigon, Vietnam, amounting to EUR 1.7 million in financial year 2019 (31 December 2018: EUR 0 million). There is also a loan from Dermapharm AG to the FYTA Group amounting to EUR 1.1 million.

Non-current assets held for sale amounted to EUR 1.8 million as at the reporting date. This item included a commercial property owned by mibe Pharmaceticals d.o.o., Croatia, which is being held for sale.

Cash and cash equivalents, including cash and demand deposits as well as current financial investments, decreased to EUR 115.0 million as at 31 December 2019 (31 December 2018: EUR 212.5 million). This change is due to the effects described in the notes to the consolidated statement of cash flows.

Total **equity** increased to EUR 284.5 million as at 31 December 2019 (31 December 2018: EUR 256.1 million). This change was due mainly to the increase in retained earnings by EUR 38.1 million to EUR 139.1 million (31 December 2018: EUR 101.0 million). Retained earnings are the result of profits and losses carried forward from the previous reporting periods and the profit for the 2019 period less the dividend for the prior year paid out in 2019. Furthermore, other reserves decreased to EUR -7.0 million (31 December 2018: EUR -3.2 million) primarily due to actuarial losses in connection with pension obligations. In addition, capital reserves decreased by EUR 8.0 million due to the recognition in equity of the call and put option for the remaining 30 % of shares in Fitvia.

Provisions for employee benefits (pension provisions) increased to EUR 57.0 million as at 31 December 2019 (31 December 2018: EUR 50.7 million). The increase is primarily attributable to the decrease in the interest rate.

The **current and non-current financial liabilities** of the Group as at 31 December 2019 in the amount of EUR 11.3 million and EUR 543.3 million, respectively (31 December 2018: EUR 71.6 million and EUR 232.7 million, respectively), primarily comprise the promissory note loans II. + III. amounting to EUR 119.0 million, a syndicated loan agreement amounting to EUR 399.4 million, real estate loans amounting to EUR 17.4 million and bank overdrafts amounting to EUR 6.0 million. The financing agreements stipulate a right of return for the respective investor upon a change of control or violation of the financial covenants. In addition, Dermapharm adopted the new standard, IFRS 16 "Leases" for the first time in the financial year beginning on 1 January 2019, resulting in the recognition of lease liabilities by the lessee (Dermapharm) amounting to EUR 12.8 million as at the reporting date.

Other provisions increased by EUR 7.6 million to EUR 16.2 million as at 31 December 2019 (31 December 2018: EUR 8.6 million). These mainly comprise provisions for health insurance organisation discount payments by the German companies.

Trade payables increased to EUR 35.4 million as at 31 December 2019 (31 December 2018: EUR 28.2 million). The increase was attributable primarily to effects related to the reporting date and the cash flows deriving from those effects. Furthermore, Euromed and Fitvia were consolidated for the first time. Trade payables have remaining terms of up to one year and do not bear interest. They generally become due for payment within 0 to 60 days.

Other non-current financial liabilities a**nd other non-current liabilities** increased to EUR 30.6 million as at 31 December 2019 (31 December 2018: EUR 14.2 million). Other non-current financial liabilities primarily comprise a synthetic purchase price liability amounting to EUR 18.4 million (31 December 2018: EUR 0 million) in relation to the put option for the remaining 30 % interest in Fitvia. In addition, this item also includes the fair values of held-for-trading derivatives amounting to EUR 0.3 million (31 December 2018: EUR 3.4 million). Other non-current liabilities increased mainly as a result of provisions for bonuses.

Other current financial liabilities and other current liabilities increased to EUR 33.7 million as at 31 December 2019 (31 December 2018: EUR 15.0 million). Other current financial liabilities mainly comprised EUR 6.0 million for residual purchase price obligations in relation to contractual escalation clauses relating to the previously purchased 70 % stake in Fitvia as at the reporting date. The increase in other current liabilities was due mainly to the conditions precedent in relation to the purchase price payment (EUR 4.2 million) for the acquisition of Euromed; the payment will be made in April 2020 in accordance with the purchase agreement. In addition, effects related to the reporting date and the cash flows deriving from those effects resulted in a EUR 5.9 million increase in liabilities relating to taxes and duties. Furthermore, provisions for pensions amounting to EUR 1.5 million were recognised. Other current liabilities have a maturity of up to one year and do not bear interest.

Tax liabilities decreased to EUR 5.9 million in financial year 2019 (31 December 2018: EUR 23.0 million). The decrease is due to the utilisation of the provision for business tax accruals in connection with the prior-year acquisition of Trommsdorff and the increase in prepayments in financial year 2019.

2.3.3 Financial Position of the Group

Stable Financial Position

Dermapharm's financial position and cash flows remained stable in the reporting period. Accordingly, the Group's liquidity was guaranteed at all times in financial year 2019.

The main sources of liquidity were cash inflows from ongoing business activities and borrowings in the short, medium and long term. The profitability of business activities and net working capital, receivables in particular, impacted the cash inflows received from the ongoing business activities. In addition to the existing financing by means of loans, lines of credit and various promissory note loans, Dermapharm also has access to a cash liquidity reserve in the form of cash and cash equivalents.

As at 31 December 2019, Dermapharm had access to credit lines amounting to EUR 151.3 million, of which EUR 145.4 million were available.

Financial management: principles and objectives

Dermapharm's financing strategy is centred on securing financial flexibility as well as optimising capital costs. The Group utilises various financing instruments in order to ensure its financial flexibility.

Dermapharm's optimal capital structure is essentially defined by whether the financial covenants agreed with creditors can be maintained. Further focus is placed on the reduction of capital costs, the generation of liquid funds and the active management of the net working assets.

In accordance with the financial covenants, Dermapharm manages its capital structure based on the KPIs net debt, the ratio between net debt and EBITDA and based on the equity ratio (as a percentage). Where necessary, Dermapharm makes adjustments, taking into account changes in the general economic environment.

In addition to these financial instruments, the Group covers its financing requirements primarily through cash flows from operating activities.

Overview of the structure of financial liabilities in the Dermapharm Group

Current remaining terms of the financial liabilities as at 31 December 2019 in EUR thousand:

EUR thousand	< 1 year	1-5 years	> 5 years	Total
Promissory note loans II. + III.	-	57,509	61,500	**119,009**
Liabilities to banks	8,215	406,786	7,797	**422,798**
Finance lease liabilities	3,049	4,611	5,144	**12,804**
Total	**11,264**	**468,906**	**74,441**	**554,611**

At 31 December 2019, **financial liabilities** amounted to EUR 554.6 million (31 December 2018: EUR 304.3 million). Issued promissory note loans II and III amounted to EUR 119.0 million (31 December 2018: EUR 81.4 million); liabilities to banks amounted to EUR 422.8 million (31 December 2018: EUR 222.6 million), of which bank overdrafts amounting to EUR 6.0 million (31 December 2018: EUR 6.1 million). In addition, lease liabilities amounted to EUR 12.8 million (31 December 2018: EUR 353 million).

Material new funding in the reporting period

In May 2019, Melasan GmbH entered into an agreement with an Austrian bank for a EUR 8.5 million **term loan facility** to finance the construction of a new production and distribution facility in Austria. The loan bears a floating rate of interest (3M-EUR-EURIBOR plus a margin) and a maximum term of ten years. In line with the progress of construction works, a portion of that loan amounting to EUR 7.6 million had been drawn down as at the reporting date.

In June 2019, Dermapharm entered into a **syndicated loan agreement** with five prominent German banks for a bullet loan of EUR 400 million and a revolving line of credit of EUR 100 million, with an option to increase that amount and a revolving line of credit in order to ensure the success of its growth strategy. The loan bears a floating rate of interest (3M-EUR-EURIBOR plus a margin), is subject to a leverage covenant, and has a maximum term of five years. At the inception of the agreement, EUR 400 million of the syndicated loan was disbursed in a single tranche. At the reporting date, no funds from the revolving line had been drawn down and the option to increase was not exercised. The disbursement of this syndicated loan meant that the previously existing bilateral loans from this banking syndicate was repaid in full in the amount of EUR 362.2 million.

In September 2019, mibe GmbH Arzneimittel entered into an agreement with a German bank for a EUR 10.0 million **loan facility** to finance the construction of a new logistics facility in Brehna. The loan bears a 0.61 % fixed rate of interest and a maximum term of ten years. In line with the progress of construction works, the full amount of the loan had been drawn down as at the reporting date.

In addition, a new **promissory note loan** was issued on 20 November 2019 and the full principal amount of EUR 100 million was disbursed as at the reporting date; tranches of the loan mature in 2024, 2026 and 2029. This loan serves to secure the Group's financing in the medium and long term. The fixed tranches of this promissory note loan III. at a nominal value of EUR 78.5 million are financed at fixed interest rates of 0.80 % for the 5-year term, 1.00 % for the 7-year term and 1.20 % for the 10-year term. The floating tranches at a nominal value of EUR 21.5 million are financed at floating interest rates (6M-EUR-EURIBOR) plus a margin of 0.80 % for the 5-year term, 1.00 % for the 7-year term and 1.20 % for the 10-year term. The interest rate floor is set at nil. The financing agreements stipulate a right for the investor to withdraw the promissory note loan upon a change of control. If the leverage covenant is not maintained, a 0.40 % margin step-up occurs.

Material existing funding and repayments of loans in the reporting period

In early 2019, Dermapharm AG took out a EUR 150 million **loan** with a German bank to serve as bridge financing for the acquisition of shares in Euromed. The loan bore a floating rate of interest (3M-EUR-EURIBOR plus a margin) and a maximum maturity until 30 December 2019. This loan was repaid in full following the entry into a syndicated loan agreement in June 2019.

In November 2014, Dermapharm issued a EUR 78 million **promissory note loan (II.)** with tranches maturing in 2019 and 2021. On 20 November 2019, all fixed tranches with 5-year terms at a nominal value of EUR 43.5 million plus the interest incurred amounting to EUR 770 thousand were repaid on time. The EUR 6.5 million variable tranche was already repaid early in 2017. When the new promissory note loan III. was being placed, a EUR 8.5 million portion of the fixed tranches of promissory note loan II. with a 7-year term was repaid early by way of roll-over into the new promissory note loan in accordance with an exchange and repurchase agreement. The interest, based on the EUR 188 thousand difference between the old and new interest rate for the remaining term of promissory note loan II., was paid out early to investors in a lump sum on 20 November 2019. Accordingly, at the reporting date the residual principal amount amounted to EUR 19.5 million, maturing in 2021. This fixed tranche of promissory note loan II. has a fixed rate of 2.20 % for a 7-year term. The financing agreement stipulates a right for the investor to withdraw the promissory note loan upon a change of control. In the course of structuring promissory note loan III., a modification to the financial covenants was agreed with the investors, and now includes a 0.40 % margin step-up in the event of a breach.

Cash flow analysis

Cash flow statement (abridged)

EUR thousand	2019	2018
Net cash flows from operating activities	100,614	159,128
Cash flows from investing activities	-382,154	(109,983)
Free cash flow	**-281,540**	**49,145**
Cash flows from financing activities	**183,962**	**164,449**
Cash flow	**(97,578)**	**213,594**
Cash and cash equivalents	114,956	212,520

The **net cash flow from operating activities** consists of changes in items not covered by investments, financing and through changes in the scope of consolidation and measurement.

The net cash flow from operating activities decreased by EUR 58.5 million to EUR 100.6 million in the 2019 reporting year (previous year: EUR 159.1 million). This change was influenced mainly by the settlement of receivables by Themis Beteiligungs-AG in H1 2018. In addition, there were EUR 28.6 million more tax payments in the 2019 financial year. EUR 12.7 million is attributable to the utilisation of the provision for land acquisition in connection with the previous year's acquisition of Trommsdorff and increased advance payments in fiscal 2019. The acquisitions Euromed and Fitvia had a counteracting effect.

Cash flow from investing activities, which reflects the cash outflows for investments less the inflows from disposals, amounted to EUR -382.2 million in financial year 2019 (previous year: EUR -110.0 million). Cash flows from investing activities were impacted primarily by payments for business combinations less available cash amounting to EUR 277.3 million (previous year: EUR 93.1 million). The Euromed and Fitvia acquisitions were included in this figure. In addition, payments for investments in financial assets were made to acquire the 20 % interest in the FYTA group for EUR 60.3 million. Furthermore, there were payments for investments in property, plant and equipment, particularly in connection with the expansion of capacities at the logistics and production facilities of mibe GmbH Arzneimittel in Brehna and Melasan GmbH in Austria.

Free cash flow, i.e. cash flow from ongoing business activities plus cash flow from investing activities, amounted to EUR -281.5 million in 2019 (previous year: EUR 49.1 million).

Cash flow from financing activities amounted to EUR 184.0 million in the reporting year (previous year: EUR 164.4 million). This was influenced significantly by the first-time distribution of a dividend for financial year 2018 amounting to EUR 41.5 million in June 2019 in accordance with the resolution by the Annual General Meeting on 4 June 2019. The AGM followed the Management Board's recommendation to distribute a dividend of EUR 0.77 per share carrying dividend rights.

Dermapharm also recorded proceeds from borrowings in the amount of EUR 460.8 million. These resulted from bridge financing taken out to acquire Euromed, a syndicated loan agreement, a promissory note loan and a term loan facility to finance the construction of a new production facility for Melasan in Austria and a real estate loan for the construction of a new logistics centre for mibe in Brehna. This was offset by payments to repay borrowings in the amount of EUR 224.1 million. These result from the repayment of the interim financing for the acquisition of Euromed and the partial repayment of the promissory note loan II.

In addition, Dermapharm adopted the new standard, IFRS 16 "Leases" for the first time in the financial year beginning on 1 January 2019, resulting in a change in the presentation of repayments of lease liabilities amounting to EUR 4.1 million under cash flows from financing activities instead of under cash flows from operating activities.

Cash flow: Cash flow is a net balance of all inflows and outflows; the cash flow generated from ongoing business activities plus the cash flow from investing activities and less the cash flow from financing activities amounted to EUR 115.0 million in 2019 (previous year: EUR 212.5 million).

Investments

The investment volume of the Group in the 2019 reporting year was EUR 386.3 million (previous year: EUR 111.8 million). Of this amount, EUR 337.7 million was spent on the acquisition of the main assets of all shares in Euromed (100 %), the acquisition of shares in Fitvia (70 %) and the FYTA Group (20 %) and CFP Packaging (100 %). Investments in intangible assets amounted to EUR 16.6 million (previous year: EUR 12.4 million) and mainly include expenditure on proprietary development products. In addition, investments in property, plant and equipment amounted to EUR 32.1 million (previous year: EUR 13.6 million). The share of capital expenditure on property, plant and equipment as measured against consolidated sales was accordingly 5.5 % (previous year: 2.4 %) of consolidated sales. Thus, 14.4 % of the total investment volume in 2019 were used for property, plant and equipment (previous year: 12.1 %) and 85.6 % for intangible assets (previous year: 87.9 %). For information about further investments in acquisitions and investments in financial assets after the reporting date, please see note 12 "Events after the reporting period" in the notes to the consolidated financial statements.

2.4 Financial position, financial performance and cash flows of Dermapharm Holding SE (HGB)

2.4.1 Business activities

The Company was established as a European company, or Societas Europaea (SE), in accordance with European and German laws. It is entered in the commercial register of Munich Local Court (Amtsgericht) under number HRB 234575 and the name Dermapharm Holding SE. The Company has its registered office at Lil-Dagover-Ring 7, 82031 Grünwald, Germany.

Dermapharm Holding SE essentially functions as a strategic holding company. It holds, directly and indirectly, shares in companies belonging to the Dermapharm Group. It is also the parent company of the Group and the management company acting exclusively as a management and holding company of the Dermapharm Group and does not generate sales from third parties except charges allocated within the Group.

Services from Dermapharm Holding SE's role as a holding and parent company of the Dermapharm Group significantly influence the Company's earnings. These strategic services are compensated by the Group companies using these services and reported as sales by Dermapharm Holding SE.

Please refer to the description of the Dermapharm Group included in this combined management report for further information on the business activities of Dermapharm Holding SE, particularly on the topics of Strategy, Research and Development, Sites and Employees, Macroeconomic and Sector-Specific Environment, Opportunities and Risks and Information relevant to acquisitions.

2.4.2 Management system and performance indicators

The key management metric used by the Board of Management to measure the success of business activities is earnings before interest, taxes, depreciation and amortisation (EBITDA).

This financial performance indicator is monitored continuously and is integrated into the monthly reporting to the Board of Management. The specified plan figures are reviewed on an ongoing basis and compared with the current business performance (plan to actual comparison). Based on this review, corresponding measures are derived from any variances to the original EBITDA targets.

The Board of Management approves objectives for use in the business planning and management of the divisions. Budgetary plans which are prepared annually for a period of three years translate these objectives into specific, measurable targets.

The table below presents a reconciliation of EBITDA to earnings as presented in the income statement:

	Retained earnings
-	Withdrawal from capital reserves
+	Loss carried forward from the previous year
=	Net loss for the financial year
+	Other taxes
=	Earnings after tax
+	Interest and similar expenses
-	Other interest and similar income
+	Amortisation of intangible fixed assets and depreciation of tangible fixed assets
=	**EBITDA**

Comparison to outlook in 2018

In the report on expected developments in the 2018 combined management report, the Board of Management forecasted a moderate improvement in EBITDA for financial year 2019 compared to financial year 2018. EBITDA amounted to EUR -1.2 million in financial year 2019 (previous year: EUR -4.6 million). Thus, the performance was better than forecasted. The primary reason for this was that consulting services for the 2018 financial year, which had been necessary due to the IPO and the associated stock market requirements, were largely covered by internal resources in the 2019 financial year. Other operating expenses had thus been reduced by EUR 3.4 million to EUR 1.7 million.

2.4.3 Financial performance of Dermapharm Holding SE

Income statement:

EUR thousand	2019	2018
Sales	4,522	4,274
Other operating income	63	53
Personnel expenses	(4,026)	(3,805)
Amortisation of intangible fixed assets and depreciation of tangible fixed assets	(10)	(7)
Other operating expenses	(1,720)	(5,153)
Other interest and similar income	1,084	552
Interest and similar expenses	-	-
Earnings after tax	**(86)**	**(4,086)**
Other taxes	-	(658)
Net loss for the financial year	**(86)**	**(4,744)**
Loss carried forward from the previous year	-	(1,482)
Withdrawal from capital reserves	43,158	47,683
Retained earnings	**43,072**	**41,457**

The **sales** in financial year 2019 amounted to EUR 4.5 million (previous year: EUR 4.3 million) and comprised solely amounts charged for services rendered to companies of the Group.

Personnel expenses amounted to EUR 4.0 million in financial year 2019 (previous year: EUR 3.8 million) and comprise the Business Development department and the Company's Board of Management.

Other operating expenses amounted to EUR 1.7 million in financial year 2019 (previous year: EUR 5.2 million). The decrease is primarily attributable to the reduction in legal and consulting fees, expenses related to the preparation and auditing of financial statements and bank commissions necessary during the preparation and transition measures related to the IPO and the subsequent stock market listing in the previous year, which were reported as non-recurring expenses.

EBITDA amounted to EUR -1.2 million in financial year 2019 (previous year: EUR -4.6 million).

Other interest and similar income amounted to EUR 1.1 million in financial year 2019 (previous year: EUR 0.6 million) and consisted primarily of intercompany interest income.

Earnings after tax amounted to EUR -0.1 million in financial year 2019 (previous year: EUR -4.1 million).

Other taxes amounted to EUR 0 million in financial year 2019 (previous year: EUR 0.7 million).

The **net loss** for the financial year amounted to EUR -0.1 million in financial year 2019 (previous year: EUR -4.8 million).

The unappropriated **net earnings** for financial year 2019 amounted to EUR 43.1 million and was used in full to distribute the dividend proposed by the Board of Management.

2.4.4 Financial position of Dermapharm Holding SE

Assets EUR thousand	31 December 2019	31 December 2018
Fixed assets		
Intangible fixed assets	13	22
Shares in affiliated companies	1,261,844	1,261,844
Total fixed assets	**1,261,857**	**1,261,867**
Current assets		
Receivables from affiliated companies	65,341	40,839
Other assets	3	4
Total current assets	**65,343**	**40,843**
Bank balances	**903**	**64,958**
Prepaid expenses	**295**	**279**
Total assets	**1,328,399**	**1,367,947**

Equity and liabilities EUR thousand	31 December 2019	31 December 2018
Equity	**1,321,715**	**1,363,258**
Provisions		
Other provisions	2,360	1,598
Total provisions	**2,360**	**1,598**
Liabilities		
Trade payables	21	64
Liabilities to affiliated companies	884	843
Other liabilities	3,418	2,183
Total liabilities	**4,323**	**3,090**
Total equity and liabilities	**1,328,399**	**1,367,947**

The financial position of Dermapharm Holding SE changed in financial year 2019 as presented below:

The **total assets** decreased slightly to EUR 1,328 million as at 31 December 2019 (31 December 2018: EUR 1,368 million).

The **shares in affiliated companies** remained level year on year at EUR 1,262 million as at 31 December 2019 (31 December 2018: EUR 1,262 million) and includes the equity investment in Dermapharm AG.

Receivables and other assets increased as a result of intercompany receivables to EUR 65.3 million (31 December 2018: EUR 40.9 million). Receivables consist primarily of a loan to Dermapharm AG.

Bank balances decreased to EUR 0.9 million as at 31 December 2019 (31 December 2018: EUR 65.0 million) due primarily to the dividend distribution.

Equity decreased to EUR 1,322 million as at 31 December 2019 (31 December 2018: EUR 1,363 million) due primarily to the distribution of the 2019 dividend.

Other provisions increased to EUR 2.4 million as at 31 December 2019 (31 December 2018: EUR 1.6 million) due in particular to personnel-related provisions.

Other liabilities increased to EUR 3.4 million as at 31 December 2019 (31 December 2018: EUR 2.2 million). These comprise primarily VAT liabilities. Since 1 January 2018, Dermapharm Holding SE has been the consolidated tax group parent of a consolidated income tax group.

2.4.5 Financial position of Dermapharm Holding SE

Dermapharm Holding SE's financial position and cash flows remained stable in the reporting period. Accordingly, the Company's liquidity was guaranteed at all times in financial year 2019.

The main sources of liquidity were cash inflows from charging for services rendered to Group companies.

In June 2019, Dermapharm Holding SE and Dermapharm AG entered into a syndicated loan agreement with five prominent banks with a revolving line of credit and an option to increase the loan amount. It is jointly and severally liable for the promissory note loan taken out by Dermapharm AG. The risk of drawdown is considered to be extremely low. Please refer to section 2.3.3. of this combined management report for information on the structure of these financing instruments.

The unappropriated net earnings reported for financial year 2019 is expected to be distributed in full in financial year 2020 as a dividend in accordance with the Board of Management's proposal.

2.5 Overall assertion on the economic situation

Overall assertions on the Group

In financial year 2019, the Group again successfully implemented its strategy and leveraged numerous synergies to improve efficiency in the Group.

Dermapharm successfully built on its positive business performance and achieved the targets forecast in its combined management report.

Revenue increased by 22.4 % to EUR 700.9 million (previous year: EUR 572.4 million).

The segment`s reported the following growth in revenue:

- Branded pharmaceuticals and other healthcare products: 15.1 %
- Parallel import business: 2.4 %
- Herbal extracts: not formed until January 2019

Dermapharm increased its **adjusted EBITDA** by 23.8 % to EUR 177.6 million (previous year: EUR 143.4 million). This figure factors in the non-recurring expenses incurred in connection with the reduction in inventories and the "step-up of the carrying amount" of the existing inventories as at the transaction date, non-recurring expenses in connection with the acquisition of Euromed and Fitvia, consultancy services in connection with further M&A activities and restructuring costs for Bio-Diät Berlin and its subsidiary Kräuter Kühne amounting to EUR 9.1 million.

The segment`s reported the following changes in adjusted EBITDA:

- Branded pharmaceuticals and other healthcare products: 16.0 %
- Parallel import business: -7.8 %
- Herbal extracts: not formed until January 2019

Prior to adjustment, EBITDA increased by 20.7 % to EUR 168.5 million (previous year: EUR 139.6 million).

The segments reported the following changes in unadjusted EBITDA:

- Branded pharmaceuticals and other healthcare products: 20.7 %
- Parallel import business: -7.8 %
- Herbal extracts: not formed until January 2019

Overall assertion on Dermapharm Holding SE

In financial year 2019, Dermapharm Holding SE, in its role as a strategic holding company, provided extensive services to the Group companies, thereby contributing to the Group's positive performance.

3. Report on Opportunities and Risks

The Dermapharm business model is geared towards markets with long-term growth potential and growth opportunities in the health and pharmaceutical market. This is also associated with challenges and risks, arising in particular from changes in national regulations and fierce competition. In light of this, the Board of Management is of the opinion that drastic regulatory interventions, intense competition, margin pressure and default risks will occur more frequently in the future. Effective, coordinated corporate governance management systems are required in order to identify risks – both throughout the Company and within the processes – at an early stage and to manage them properly, to guarantee reliable financial reporting by means of suitable controls and to ensure compliance with internal and external regulations and laws. The main characteristics of the individual corporate governance elements (risk management system, internal control system and compliance management) are described below.

3.1 Risk management system

Dermapharm's Group-wide risk management system (RMS) covers Dermapharm Holding SE, Dermapharm AG and all subsidiaries in which a majority interest is held (> 50 %). The basic elements of Dermapharm's risk management system are described below:

Risk culture

The key prerequisite for successful risk management is a healthy risk and compliance culture within the Company. To set the right tone from the top, management promotes open risk communication across all subsidiaries, divisions and hierarchy levels. Group employees are encouraged to think about potential risks, openly address risks that have been identified, and suggest immediate action to minimise risk. Training on the Group-wide RMS methodology in all relevant divisions in Germany and abroad has made it possible to develop a common "risk language" throughout the Group. This ensures that the results of risk analysis are comparable across international borders and at the same time allows insights to be shared between the individual subsidiaries and/or divisions.

Objective of the RMS

The goal of the Group's risk management system (RMS) is to identify potential risks that could jeopardise the Group's performance early and to introduce suitable measures to actively counter them. Another goal of the risk management system is to guarantee that the annual and consolidated financial statements and the combined management report are prepared in compliance with regulations by identifying, assessing and managing the risks of financial reporting. The identified risks also serve as the basis for the risk-oriented definition of principles, procedures and controls under the accounting-related internal control system, which is intended to ensure that the system in place for preparing the financial statements complies with regulations.

Risks for Dermapharm exist due to external influences as well as through entrepreneurial actions. Risks may result in targets being missed or adversely impacted. When balancing opportunities and risk, the Company consciously takes risks that are in line with the anticipated benefit of the corresponding business activity. Consequently, risks cannot be avoided altogether but should be mitigated as much as possible.

RMS organisation

The risk management system is managed centrally by the Governance, Risk & Compliance (GRC) team, it is tested for effectiveness and appropriateness on a regular basis and is entirely the responsibility of the Board of Management. By contrast, risks are monitored and managed at the local level. Depending on the risk category and risk scope, this is the responsibility of the division managers and managing directors as well as the members of the Dermapharm Holding SE Board of Management. Potential risks are communicated regularly, either verbally or in writing, to all relevant divisions and companies in which a majority interest is held.

Organisation of the risk management system:

Supervisory Board: Monitoring of the RMS

Management Board: Overall responsibility for the RMS

1. Line of defense

Process Owner / Risk Owner (operative management)

Responsibilities:

- Identification, assessment and documentation of the opportunities and risks in the respective area of responsibility
- Implementation of risk mitigation measures and monitoring the effectiveness of controls
- Annual review and, if necessary, update of already documented / new risks and assigned measures / controls
- Promotion of risk culture in the respective area of responsibility

2. Line of defense

Governance, Risk & Compliance (GRC) Team

Responsibilities:

- Design and implementation of the GRC System
- Communication and training regarding the content of the GRC concept
- Support of the annual risk inventory (interviews with Process Owners)
- Conducting of risk analyses
- Regular reporting to internal and external stakeholders
- Continuous monitoring and improvement of the Group-wide GRC system

3. Line of defense

Internal Audit

Responsibilities:

- Independent review of the design and effectiveness of the GRC System
- Providing independent and objective auditing and advisory services aimed at adding value and improving the business processes

Risk management process

A defined group of risk owners are responsible for regularly identifying, analysing and assessing risks using an established set of risk categories and assessment methodology. The potential impact and likelihood of the risk are assessed taking into account the countermeasures that have already been implemented. Risks are classified as low, medium or high depending on the combination of impact and likelihood. Risk classification is the basis for prioritising the measures necessary to manage risk. A full report with a comprehensive assessment of the risk situation is provided to the Board of Management and the Supervisory Board of Dermapharm Holding SE at regular intervals. The appropriateness and effectiveness of the RMS is continually monitored by the Governance, Risk & Compliance (GRC) team and regularly reviewed by the independent Internal Audit unit.

Risk identification

Identification and handling of risks is firmly anchored in the corporate principles and is the responsibility of all Group employees.

Dermapharm differentiates between the following risk categories on the basis of the internationally recognised ERM framework (2014, COSO II) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO):

Market & Strategy	Operational
• Threat of (new) competitors / manufacturers of original drugs • Dependence on key products • Dependence on suppliers / business partners • Dependence on customers • Risks from M&A activities • Political risks	• Risks in the development of new products • Procurement risks • Production risks • Quality risks • Marketing & distribution risks • IT risks • HR risks • Other operational risks

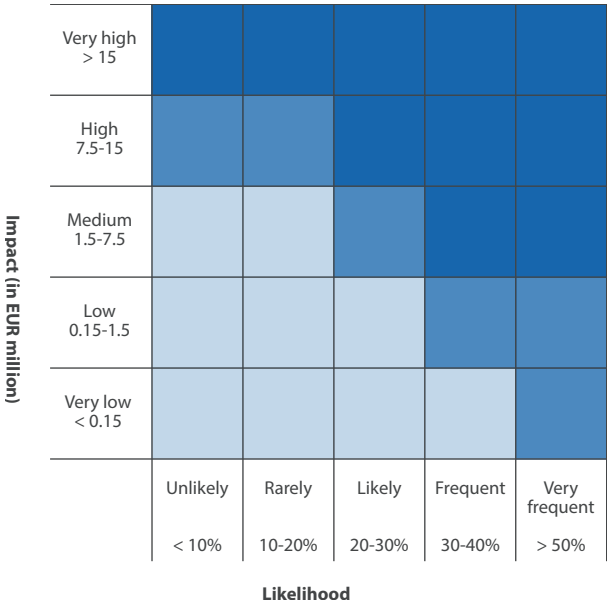
Financial	Compliance
• Financing and liquidity risks • Interest change risks • Currency risks • Tax risks	• Risks arising from changes in the legal and regulatory environment • Infringement of industrial property rights • Product liability risks • Violation of environmental, health and safety regulations • Violation of the rules set out in the Compliance Manual

Risks are identified by continuously monitoring the general economic trend, the market environment in the pharmaceuticals sector and internal processes. This involves a regular cycle of macroeconomic and industry-specific analyses. The planning process also serves to recognise risks in the Company at an early stage and to align business management practices accordingly. Budget planning covers a planning horizon of three years. The objective of developing and using is ultimately to continually and sustainably increase enterprise value, to achieve the medium-term financial targets and to secure the continued existence of the Company in the long term.

Risk assessment and management

As part of regular risk surveys, the risk owners assess the identified risks based on two dimensions: impact and likelihood. This takes into consideration countermeasures already implemented and controls already put in place (net risk assessment), and where possible is based on objective criteria and/or historical experience. The assessment relates to the subsequent 12-month period (assessment horizon = 1 year).

Dermapharm uses a 5x5 assessment scale as illustrated in the following risk matrix:



The risk classification is a combination of the assessed likelihood and impact:

High Medium Low

The likelihood is assessed by answering the following question: how likely is it that the risk will materialise in the next 12 months?

In addition to likelihood, the potential impact arising on risk occurrence is assessed in monetary terms as a negative impact on the operating result (EBIT). The potential losses are allocated to ranges given in euros.

The risk is classified as low, medium or high based on a combination of the assessed likelihood and impact. This makes it possible to prioritise the steps required to mitigate risk.

Depending on the respective risk strategy (accept, avoid, mitigate or transfer), the risk/action owner takes the appropriate action and/or implements/modifies the controls inherent in the process. In the case of risk acceptance, there is no (further) action taken/control implemented.

The risk assessment identified no risk for financial year 2019 or for the forecast period that would jeopardise the ability of the Group or any individual subsidiary to function as a going concern.

Risk reporting and continual monitoring of the RMS

A full report with a comprehensive assessment of the risk situation is provided to the Board of Management and the Supervisory Board at regular intervals. This focuses on risks classified as medium or high. Ad hoc reporting is used to notify the Board of Management and where necessary the Supervisory Board of newly identified significant risks.

The Board of Management also receives regular reports on the macroeconomic and industry-specific analyses and planning scenarios that have been conducted, and this data serves as the basis for assessing the risks at the Company level. Business decisions to avoid, mitigate, transfer or accept risks are taken on this basis.

The Governance, Risk & Compliance (GRC) team at Dermapharm continually monitors the appropriateness of the risk management system and makes any requisite recommendations for improvement. Approval is obtained from the Board of Management for material changes to the RMS.

Internal Audit conducts regular independent audits of the appropriateness and effectiveness of the RMS.

In particular, the process of identifying and assessing the Company's internal risk factors involves regularly reviewing business processes, projects, acquisitions, HR and compliance issues. In this area, the internal control system at Dermapharm helps minimise and eliminate manageable risks within the business processes. The objective of the internal control system is to universally implement the strategic and operational directives of Dermapharm's Board of Management, to achieve the operating efficiency targets and to guarantee that compliance requirements are met.

3.2 Accounting-related Internal Control System

The Group's accounting-related Internal Control System comprises all procedures and measures to ensure proper and reliable accounting and compliance with the relevant statutory provisions and the articles of association. There are clear rules governing the responsibility for implementing the Internal Control System within the accounting process, and it lies with the Board of Management, the responsible managers, the financial accounting department and the managerial accounting department. The system is being continually improved and its effectiveness tested on a regular basis in order to ensure that the accounting and the processes for preparing the annual and consolidated financial statements are accurate and complete at all times.

New accounting rules are assessed for their impact on the accounting within the Group and, if necessary, are applied accordingly. A variety of controls are integrated into the accounting process and the process for preparing the annual and consolidated financial statements and the combined management report. The IT-supported processes include system-based controls to help ensure that transactions are recorded correctly and completely. Appropriate software is used to support the consolidation process. An IT security concept has been implemented to ensure the availability of the systems used within the Company. Further controls include implementation of the principal of dual control, which is employed for material business processes, a clear division of responsibilities and roles and a range of manual checks that are documented and monitored accordingly. In addition, the Supervisory Board considers the effectiveness of this system as part of its oversight of the Board of Management.

3.3 Compliance management

Trust and integrity are among the most important values in the corporate culture and are prerequisites for Dermapharm's business success. The compliance guidelines serve to ensure that the Company, the managers and the employees act responsibly and in an ethically correct manner. Possible violations should be recognised in advance and systematically prevented.

The Chief Compliance Officer (CCO) is responsible for managing and monitoring the necessary activities at the Group level and supported by additional compliance officers in the individual companies. The CCO in turn reports at regular intervals to the Board of Management, which initiates corresponding measures when violations are committed. The compliance management system also includes a Compliance Manual that contains Dermapharm's binding compliance policies. Appropriate communication channels are available to all employees of Dermapharm to report potential compliance violations.

3.4 Risk report

Market and strategy

Threat from (new) competitors/manufacturers of originator preparations

Dermapharm could be adversely affected by developments in the international markets for pharmaceuticals and healthcare products. Because Dermapharm is subject to fierce competition in all markets in which it operates, various factors can adversely affect the Group's business activities.

The emergence of new competitors can have an unfavourable impact on market conditions. Furthermore, some competitors – due to their financial and/or organisational resources, production capacities, and selling and/or market power – may impact market conditions in a way that has a negative outcome for Dermapharm. This applies in particular to activities that impact the pricing for tenders for discount agreements, the range of products and services and/or the terms of delivery or discount terms to the benefit of their own competitive position.

The manufacturers of originator preparations for which Dermapharm develops off-patent substitutes could take measures to prevent such substitutes from being used. This could result in an increase in Dermapharm's costs as well as delays in the introduction of pharmaceuticals by Dermapharm or even prevent such pharmaceuticals from being introduced outright. In addition, the manufacturers of originator preparations are increasingly introducing approved off-patent pharmaceuticals and non-pharmaceutical versions of their products (i.e., products which may be sold outside of pharmacies), which may adversely affect the market share Dermapharm gains with its new products. The manufacturers of originator preparations are not exposed to any noteworthy barriers to markets for off-patent pharmaceuticals and other healthcare products.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Dependence on key products

A significant share of Dermapharm's revenue and EBITDA is generated through the sale of a limited number of key products, such as Dekristol® 20,000 I.U. in particular. In recent years, Dekristol® 20,000 I.U. sales benefited significantly from the broad acceptance of medical trials demonstrating the health consequences of vitamin D deficiency and the increasing recognition of its prevalence within the population, as well as from the fact that, until the end of 2018, there were no competitors on the German market offering authorised vitamin D compounds with a similar combination of dosage and packaging size. As a consequence, income from the sale of Dekristol® 20,000 I.U. has increased continuously in recent years. There is no guarantee that the revenue from Dekristol® 20,000 I.U. will continue to grow at the same pace or remain constant over the long term. Risks in this respect include adverse changes to market conditions, a decline in the purchasing power of patients who pay for products directly, competition, the establishment of alternative treatments and regulatory measures. These risks also apply to other key products sold by Dermapharm, such as Keltican® forte, Tromcardin® complex and bite away®.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Dependence on suppliers/business partners

Dermapharm depends on a limited number of suppliers and third-party manufacturers for the raw materials it requires to manufacture its products. Interruptions in the supply chain may considerably impair Dermapharm's business activities.

We protect ourselves from potential supplier bottlenecks, due for instance to the loss of a supplier, by employing an appropriate inventory strategy and alternative sources.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Dependence on customers

Dermapharm's business success depends among other things on its ability to successfully market prescription pharmaceuticals to doctors who prescribe medication to their patients. Changes to the market conditions may occur as a result of an increase in the buying power of individual customer group such as doctors, pharmacy chains, health insurers, purchasing groups and wholesale associations. Consequently, competition could intensify as it relates to pricing, terms and conditions and/or services, and the overall conditions for tenders for discount agreements could deteriorate as a result.

The Dermapharm Group works to actively minimise risk by comprehensively and continuously observing market developments, relevant participants and significant market structures and by developing alternative course of action on the basis of these observations.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Risks arising from M&A activity

Dermapharm's corporate strategy is geared towards growth and internationalisation in the pharmaceutical market in the "Branded pharmaceuticals and other healthcare products", "Herbal extracts" and "Parallel import business" segments. Dermapharm's growth strategy is associated with the risk that businesses and products acquired in the past or to be acquired in the future can only be integrated at a higher cost or the expected synergies cannot be leveraged as intended. Moreover, the acquired businesses or products may not generate the expected results on the market if the markets and therapeutic areas comprising Dermapharm's strategic focus develop differently than expected.

The targeted expansion of the business into foreign markets furthermore exposes Dermapharm to risks associated with conducting business in unfamiliar countries. Established consumer habits, legal conditions and existing market and distribution structures may adversely affect the Company's performance. Against this backdrop, there is the risk that Dermapharm may fail to identify and leverage attractive growth opportunities. Even if Dermapharm takes part in acquisitions, joint ventures or other business combinations, either in Germany or abroad, such transactions may develop differently than initially expected.

Even if Dermapharm undertakes all efforts to minimise these risks through meticulous analyses, each of the previously mentioned situations may result in an economic loss.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as medium at Group level.

Political risks

The Dermapharm Group operates globally and as such is exposed to a number of political systems. Changes in the political environment may adversely effect Dermapharm's business activities, including through the imposition of tariffs, export bans in supplier countries, changes in pricing policy (including the rates paid by health insurers), and new legislation and regulations affecting the healthcare sector. The effects can also be indirect, for instance minimum wages being introduced or amended, higher taxes, military conflict or industrial action.

In the UK, the political uncertainty surrounding Brexit on 31 January 2020 may have a significant adverse effect on our business activities there. From today's perspective, it is unclear how the 11-month transition period following Brexit will unfold and what the trade deal between the UK and the EU will look like in concrete terms. It also remains to be seen whether other EU member states will follow the UK's example.

Dermapharm manages these risks by continually monitoring the relevant political developments and taking appropriate action when necessary.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Operational risks

Risks in developing new compounds

Dermapharm generates the majority of its revenue from off-patent branded pharmaceuticals. In general, the revenue generated from these pharmaceuticals declines continuously the longer these products are on the market. For Dermapharm, sustainable growth therefore depends on the continuous development, introduction and marketing of new products.

There is no guarantee that Dermapharm can successfully develop new products since even the reproduction of established formulations can prove more difficult and more costly than originally anticipated. Although Dermapharm has its own development capacities, along with the expertise required to design and sponsor the clinical trials necessary for obtaining new authorisations, it relies on contract research institutions and other third parties which provide support in the administration and monitoring of such clinical trials as well as other aspects of conducting those trials. If third parties fail to successfully conduct the clinical trials initiated by Dermapharm, the quality and accuracy of the data are adversely impacted, or the protocols for clinical trials are not followed or envisaged deadlines are not met, there is a risk that Dermapharm's clinical trials may fail to meet regulatory requirements. After Dermapharm has filed an application for authorisation to bring a new pharmaceutical to market, there is the risk that the responsible regulators can change the standards and/or require Dermapharm to conduct additional trials or evaluations. Therefore, Dermapharm may face delays and higher costs than initially anticipated. As a result, projects which were initially classified as economically feasible may prove to be unprofitable, and the projects therefore discontinued.

Even if Dermapharm can successfully develop new products, different factors – some outside of Dermapharm's control – determine the success of new product launches (e.g., competitor behaviour and customer perception of new products). On average, it takes around five years for Dermapharm to develop an off-patent pharmaceutical (including the authorisation procedure). However, this period can vary widely depending on the type of regulatory requirements, the type of trial, complexity of the development of the active ingredients or type of authorisation procedure (national or multinational). The longer it takes to develop a product, the longer it can potentially take for Dermapharm to cover its development costs and generate profits. A product that is considered to be promising in the early stages of its development cycle can become less attractive if a competitor succeeds in occupying the market earlier. Furthermore, Dermapharm could potentially fail to accurately assess the potential market for new products. Because Dermapharm generally does not focus on high-volume pharmaceutical markets, the limited availability of data makes these assessments particularly difficult. Moreover, the actual market at the date of market entry may be significantly less attractive than in the early stages of development (e.g., if alternative treatment forms have been discovered or more advanced products have been introduced for the same ailments).

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as medium at Group level.

Purchasing risks

On the purchasing side, there are risks of potential supply bottlenecks and price volatility pertaining to raw materials and energy. An increase in the price of ingredients could result in a higher cost basis in production. A price drop in this area could, in turn, necessitate the recognition of impairment losses on inventories.

Dermapharm has inventory and purchasing policies in place to prevent this. Significant portions of the raw materials supply are covered by long-term supply agreements and price escalation clauses in the supplier agreements.

There are further risks for the procurement of reimported pharmaceuticals by Dermapharm or the axicorp Group. Since the parallel import business is subject to statutory regulations, lowering the parallel import quotas, introducing export restrictions or pharmaceutical quotas and similar regulations could have an adverse effect on Dermapharm's parallel import business. As a result of market and demand changes, there is also a risk that Dermapharm will be unable to resell the pharmaceuticals imported under the parallel import business at attractive prices or at all.

Dermapharm also faces the risk that pharmaceuticals needed for the range of products offered in the parallel import business cannot be imported or purchased. If the prices for pharmaceuticals rise in the procurement markets or fall in the German pharmaceuticals market, Dermapharm may not be able to identify attractive purchasing opportunities. This also represents a potential risk for the necessary combination of high-margin and low-margin pharmaceuticals in the product portfolio. A corresponding diversity of products is needed to offer customers an attractive range of products at an adequate margin. If Dermapharm is unable to purchase a sufficient amount of low-margin pharmaceuticals, which are usually characterised by less availability and are therefore also more attractive to Dermapharm's customers, this could adversely affect revenue.

Dermapharm counters these risks by identifying and assessing risks on a regular basis and by introducing countermeasures by the management team in accordance with the quality standards of the axicorp QS system (DIN EN ISO 9001:2008 – Preventive action/management processes). These include, in particular, the early preparation and evaluation of case scenarios.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Risks in relation to manufacturing products

Disruptions in Dermapharm's manufacturing processes and delays in launching new products could adversely affect Dermapharm's business activities. These disruptions include a lack of availability of production facilities and disruptions in workplace and process safety, which can result in production targets not being achieved and demand not being adequately met, leading to a loss of contribution margins. Many of Dermapharm's products are manufactured in technically complex processes that require special equipment and facilities and raw materials as well as special production conditions. Increasingly, such processes depend on the use of product-specific devices for implementation, which can result in technical bottlenecks.

Dermapharm counters such scenarios with comprehensive measures. These include proactive equipment maintenance, risk assessments and regular employee training courses to improve the Group's safety standards. In addition, Dermapharm continually optimises and modernises all production equipment and facilities in order to guarantee optimal production conditions along the entire value chain.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Quality risks

Dermapharm sells its products under recognised brand names. Therefore, market perception is crucial to Dermapharm's business, particularly perceptions relating to product safety and quality. If products manufactured or sold by Dermapharm – including products sold in the context of the parallel import business – and similar products sold by other companies are subject to market withdrawals or recalls or are alleged or demonstrated to be harmful to customers, this could have a negative effect on the demand for such products. A negative public perception of the quality of Dermapharm's products could have the same effect.

It is possible that despite comprehensive tests and trials, side effects or initially undetected defects are discovered to affect existing products only after they have received approval or been marketed. Additionally, new scientific findings can result in a less favourable risk/reward analysis with the consequence being that the compound must be partially or entirely withdrawn from the market. Such a suspension of sales may be due to legal or regulatory measures or may be implemented voluntarily by the Company at its due discretion. Additionally, court proceedings and associated claims for damages resulting from such findings could have a considerable adverse effect on the Company's operating result.

In order to protect its brands and avoid negative publicity, Dermapharm is able to recall certain products which fail to meet Dermapharm's own high standards of quality, even if there is no risk to customers or statutory obligation to do so.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Risks in relation to marketing and sales

Marketing and sales activities may give rise to (as yet unknown) risks, in particular when launching new products. Various risk factors, such as delays in the approvals process, medical objections, unexpected product launches by competitors, changes in the regulatory framework or political instability, may

mean that the developed product strategy proves to be inappropriate or inefficient. The resulting delay in launching the product may cause revenue to fall short of the targets set.

A large number of the products sold by Dermapharm are branded pharmaceuticals for which a strong, protected brand is a key success factor. Another risk factor is therefore insufficient trademark protection for the product sold.

The use of dubious advertising materials (e.g. incorrect or incomplete references, imitating competitors' advertising, advertising not compliant with the marketing authorisation) may result in cease and desist letters from competitors and even legal proceedings.

Dermapharm manages these risks by continually monitoring the relevant market situation and, where necessary, modifying its product strategy as appropriate. Marketing and sales employees also receive specific training on regulatory issues (e.g. the German Law on the Advertising of Medicinal Products (Heilmittelwerbegesetz, HWG), trademark law). Our information officers check and approve all advertising materials before they are communicated externally.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

IT risks

Because of the increased use of IT systems and programs, there is a higher risk of losing digital information. This risk can arise as a result of lacking or insufficient data security and malicious attacks by external parties. Risks can also exist due to the heterogeneous system landscape, which requires maintenance and updates at regular intervals, and in-house developments, which require greater upkeep in order to meet the continually growing security requirements. There is also an increased risk associated with integrating the IT infrastructures of acquired companies. Furthermore, an outage of the IT systems represents a risk to production.

Dermapharm manages these risks with, among other things, an appropriate authorisation concept, adequate IT security systems (e.g., redundant data processing centres and Group-wide anti-virus programs), regular software and hardware maintenance and routine back-ups of the data critical to the business.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

HR risks

The Dermapharm Group's success is highly dependent on the motivation and skills of its employees, who among other things develop promising products, manufacture them in observance of quality and safety, and sell them effectively in various international markets. In order to ensure the continuing development of existing staff and comply with the relevant regulatory requirements (for example in terms of pharmacoviligence, drug safety, and occupational health and safety), almost all divisions conduct regular training that is documented accordingly.

Due to the Group's growth, another critical success factor is Dermapharm's ability to attract and retain skilled employees going forward. Some German regions have almost full employment. The resulting lack of skilled workers, which could be further exacerbated by demographic factors going forward, may adversely affect Dermapharm's operating result.

Furthermore, high staff turnover, in particular in key roles, may adversely affect remaining employees' commitment, result in negative employer branding and cause process delays or disruptions and a loss of expertise. To counter these risks, appropriate measures to recruit and foster employees are developed on the basis of the annual HR planning.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Other operational risks

Dermapharm bears further general business risks in the respective market regions such as the risk of unexpected disruption of the infrastructure, strikes, sabotage, natural disasters, criminal activities, terrorism and other unforeseeable material adverse effects. Where possible and economically viable, Dermapharm insures itself against this by taking out the appropriate insurance cover. However, it cannot be ruled out that the insurance policies may not provide adequate coverage in individual cases.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Financial risks

Funding and liquidity risks

Fundamental liquidity risks may occur should Dermapharm not have sufficient liquid resources at its disposal. For instance, such a risk could materialise as a result of the unavailability of lines of credit, the loss of existing cash resources, the inability to access the financial markets or strong fluctuations in the operating business. In addition, Dermapharm's financial liabilities could limit the cash flows available for the operating business and defaults on the payment of financial liabilities could result in insolvency on Dermapharm's part. An increase in the level of the Company's debt could also have a detrimental effect on Dermapharm's business. Accordingly, the objective of liquidity management is to ensure solvency at all times and safeguard financial flexibility by holding sufficient liquidity reserves and free lines of credit.

At present, thanks to the Company's stable liquidity and equity situation and prudent liquidity management, it is not exposed to any identifiable liquidity risks.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Interest rate risks

Interest rate risks include potential losses caused by changes in market rates of interest. Interest rate risks from financial instruments can arise within the Group mainly in connection with financial liabilities.

Dermapharm manages its interest rate risks by borrowing funds largely at matching maturities and through the use of interest rate derivatives.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Currency risks

The Dermapharm Group prepares its accounts with the euro as its Group currency. Since the Group's business is international in nature, it is exposed to risks arising from exchange rate volatility. In particular receivables and liabilities denominated in other currencies are subject to the risk of a change in value. Additionally, accounting risks can arise from exchange rate fluctuations affecting the consolidated financial statements as well as from the translation of items of the statement of financial position and items of income and expense for foreign subsidiaries with a local currency other than the euro. In this connection, any appreciation (depreciation) of the euro against other currencies could have a negative (positive) effect.

The axicorp Group uses financial instruments (currency forwards) to reduce procurement-side risks from cash flow fluctuations arising from foreign currency transactions. To that end, offsetting underlying and hedging transactions are combined to form anticipatory valuation units (micro hedges). The financial instruments are concluded exclusively with commercial banks with solid credit ratings. The amount of hedging is determined by means of a rolling procurement planning system.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Tax risks

Dermapharm is subject to the general tax conditions in the countries in which the Group operates, particularly in Germany. Dermapharm's tax burden depends on the application and interpretation of various tax laws. Tax planning and optimisation at Dermapharm depends on the current and expected tax environment. Changes in the general tax environment and future external tax audits and investigations could increase Dermapharm's tax burden.

Moreover, tax matters are generally subject to a degree of uncertainty with respect to the judgement of domestic and foreign tax authorities. Even if Dermapharm is confident that all tax matters have been presented correctly and in accordance with the law, the possibility cannot be ruled out that the tax authorities might conclude otherwise in individual cases.

Dermapharm counters tax risks by carefully reviewing and processing all tax matters.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as medium at Group level.

Compliance risks

Risks in relation to changes in the legal and regulatory environment

Numerous regulations govern the pharmaceuticals and healthcare market. Lifting or amending regulations or passing new regulations, for example as part of healthcare reform, could have significant economic and strategic effects on Dermapharm's business activities and adversely affect its performance. Regulations at the national or supranational level are highly significant if they affect the market structure, pricing and/or product approvals in the public healthcare sector. In principle, for all products in the healthcare market, but especially for pharmaceutical products, there is the risk that they will no longer be covered or the reimbursement rates will be lowered due to regulatory interventions in the respective national social

security systems. The prices for off-patent pharmaceuticals are also exposed to price pressure originating resulting from discount agreement with statutory health insurers. All of this can result may reduce the profitability of individual products and, in some cases, may mean that bringing a product to market is unprofitable.

In addition, the manufacturing, processing, formulation, packaging, labelling, advertising and sale of Dermapharm's products are subject to comprehensive regulations, such as restrictions on obtaining marketing authorisations, price restrictions, packaging requirements for Dermapharm's products and restrictions on the distribution of pharmaceuticals and other healthcare products. In the past, compliance with such provisions resulted in higher expenditures and an increased administrative burden for Dermapharm. If additional requirements are introduced in the future, these are expected to necessitate additional expenses and could prevent Dermapharm from continuing to conduct business as it currently operates.

Exact forecasts concerning the introduction and scope of any changes are not possible since these regulations depend on the political processes in the respective countries or on court decisions. Dermapharm works to actively minimise risk by comprehensively observing relevant sources of regulations and by developing alternative course of action on the basis of these observations.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as medium at Group level.

Infringement of industrial property rights

When developing, seeking marketing authorisation for and selling each and every product, it is crucial to precisely observe the applicable rules and regulations, including with respect to industrial property rights. Industrial property rights include patents, trademarks and summaries of product characteristics. If individual legal requirements are not complied with, this can result in delays in the sale and distribution of a new product, the sale and distribution may be prevented due to legal actions by competitors, or authorisations by the relevant authorities may be denied. If Dermapharm has sold products under the assumption that there were no legal grounds preventing it from doing so and it is established through the courts that this assumption was erroneous, there is the risk that products must be removed from the market, written off and destroyed, all at considerable cost. Infringing industrial property rights poses the risk of litigation and considerable damages.

Dermapharm actively minimises risks by comprehensively observing relevant sources of regulation and databases of industrial property rights and by developing alternative course of action on the basis of these observations.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Product liability risks

Dermapharm is fully liable for all the products it markets, irrespective of whether they are manufactured in house or by a third party. If – despite extensive trials and quality assurance testing – patients experience unforeseen side effects or quality defects emerge only after a product has been launched, this may lead to product recalls, reputational damage for the Company and litigation and damages paid to patients/third parties.

The product liability risks to which Dermapharm may be exposed in the course of its business and as the result of selling pharmaceutical compounds are limited through corresponding insurance policies, specifically a pharmaceuticals product liability insurance policy. In addition, extensive internal controls are in place to ensure drug safety.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Violation of environmental, health and occupational safety provisions

Dermapharm places high priority on protecting the environment and the health and safety of its employees in their day-to-day work.

Non-compliance with legal requirements or internal policies may lead to personal injury or damage to property and/or the environment, cause operational disruption and result in the obligation to pay damages. Of particular note with respect to environmental protection is the high level of public engagement and thus the considerable potential for the Company to incur reputational damage in the case of a violation.

With our regular occupational safety briefings and internal standards, we guarantee safety in our production and operating facilities and protection against other health hazards.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

Violation of the rules laid down in the Compliance Manual

The Dermapharm Group Compliance Manual lays down binding internal rules governing topics including human rights, data protection, conflicts of interest, bribery and corruption, money laundering and terrorist financing, fair competition, insider trading and market manipulation.

In particular, allegations of corruption and antitrust law violations and the negative publicity that often ensues could adversely affect Dermapharm's business activities.

All Dermapharm Group employees are required to follow the rules defined in the Compliance Manual, without exception. Nevertheless, compliance failures may occur due to human error. In such cases action is taken under labour law and, if necessary, criminal law.

The likelihood of compliance violations is reduced by means of regular communication and advice from the Compliance Officer, providing relevant training, and the controls implemented in business processes.

Taking into account the likelihood and impact, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low at Group level.

3.5 Report on opportunities

According to the German Pharmaceuticals Industry Association (Bundesverband der Pharmazeutischen Industrie e.V., BPI), the market for pharmaceuticals products is likely to be largely unaffected by the global economy and one of the fastest-growing markets over the coming years. The most significant influencing factors for market development include increasing life expectancies in industrialised countries, global population growth and the rising number of lifestyle and nutritional disorders becoming chronic.

In an economic comparison with other treatment options, pharmaceutical products continue to be considered particularly efficient. In particular, off-patent pharmaceuticals have great potential for growth because they make it possible to offer less expensive therapies which promise the same level of quality. They therefore greatly help to ease the rising cost pressure in the healthcare system. Moreover, patents and trademark rights will continue to expire in the future, allowing for a continuous expansion of market potential which competitors offering generics can develop. Dermapharm intends to leverage this market potential by introducing new products and acquiring existing off-patent branded pharmaceuticals.

Dermapharm is actively working to implement its strategy for continued development. Its corporate strategy comprises three pillars: (1) active portfolio management by developing its own new products in-house to strengthen the individual product areas; (2) internationalisation strategy to expand into selected attractive markets in Europe; and (3) active participation in industry consolidation through acquisitions, partnerships and divestments. Dermapharm intends to actively leverage the growth opportunities arising from this strategy going forward.

Dermapharm's development pipeline contains a wide variety of branded pharmaceutical products in selected therapeutic areas, and these products are distinguished by a limited number of competitors and a large degree of independence from tenders by the statutory health insurers.

The Group's international sales organisation is structured so that the branded pharmaceutical products from the Group's portfolio can be modified to meet the various regulatory and competitive conditions and be sold in individual national market regions. mibeTec's hyperthermic medical devices also provide the Dermapharm Group with high-demand products that can be rolled out in all European countries in quick succession because they are CE certified.

By acquiring Euromed as at 3 January 2019, Dermapharm is expanding its value chain and strengthening its know-how in the growth market for herbal pharmaceuticals. By having its own company in Spain, Dermapharm is also expanding its international presence and is considering leveraging Euromed's knowledge of the local industry to also bring its own products onto the Spanish market.

The interest in FYTA (20 %), a Dutch producer of cannabis products for pharmaceutical applications, followed in March 2019, allowing Dermapharm to gain access to the market for medical cannabis and further expand the portfolio in the "Herbal extracts" segment.

From an earnings perspective, efficient cost management will continue to play a major role. Dermapharm will continue to focus on optimising the manufacturing processes for its products and reducing the associated costs since these represent the largest cost items in the Group's budget. By reducing its manufacturing costs through in-house production and sharing market risk with suppliers, the Company intends to leverage the corresponding opportunities to cut costs.

Going forward, Dermapharm will also confront market competition with experience, new product approvals, confidence and high quality. The Group's high standard of quality is implemented with the assistance of internal process and quality controls. For instance, all of Dermapharm's products are made in accordance with the international Good Manufacturing Practice (GMP) standards.

3.6 Overall assertion – assessment and summary

Dermapharm believes that there are opportunities for future development in particular in the pharmaceuticals market's independence from economic cycles, the growth potential in the area of off-patent pharmaceuticals, international sales and distribution, efficient cost management and high product standards. Dermapharm intends to systematically leverage

these growth opportunities through its growth strategy, which involves in-house product development, internationalisation and M&A activity.

Dermapharm believes that there are risks to future development primarily in connection with the difficult, state-regulated competitive environment, volatile prices for raw materials, a stagnating price level caused by a state-initiated price moratorium and changes to authorisation and market requirements for internally developed products and acquired companies.

In view of the financial stability, the Dermapharm Group believes it is well equipped to deal with future risks.

Concerning the future performance of Dermapharm Holding SE, in principle, there are no risks which could jeopardise the Group's assets, liabilities, financial position and profit or loss.

The Dermapharm Group has focused its production and sales activities on the European market; the main production site of the Group for the development, production and logistics of branded pharmaceuticals is still Brehna near Leipzig. The company continuously monitors the stock of raw materials to ensure smooth production. As of the beginning of April 2020 Dermapharm is not affected by supply bottlenecks. Dermapharm's most important production facilities have already been classified as companies with critical infrastructure for the state community in accordance with Section 6 of the BSI Kritis Ordinance and will therefore continue to operate for the duration of the crisis. Therefore, at this point in time no concrete economic impact of the corona pandemic on Dermapharm's business figures is foreseeable.

The Board of Management of Dermapharm Holding SE has thus fulfilled its duty to provide information on the Group's risks and opportunities to the Supervisory Board and the shareholders. It considers this report to be an important element of corporate governance in practice.

4. Report on expected developments

4.1 Outlook

In its report on expected developments, Dermapharm discusses, to the extent possible, its expectations with respect to the future development of Dermapharm and the market environment in which the Group operates for financial year 2020.

Expected development of the market environment

In January 2020, the International Monetary Fund (IMF) had forecast a weakened growth of the global economy of 2.9 % for the 2019 financial year and a slightly increased growth of 3.3 % for 2020. Due to the spread of the coronavirus, the IMF reduced global growth expectations by 0.1 percentage points in February 2020. The reduced forecast is based on the assumption that the economic situation in China will normalize in the second quarter and that the impact on the global economy will therefore be relatively minor and of short duration.

By contrast, real GDP in Germany is expected to grow more slowly: weak growth of 0.5 % is expected in 2019, while the IMF estimates that the German economy will regain momentum with an increase of 1.1 % in 2020. This was also the forecast of the IfW Kiel in its economic report of December 2019. As the global measures to contain the corona pandemic have recently significantly clouded the economic outlook, the IfW Kiel corrected its spring forecast in mid-March and now expects GDP in Germany to slump by between 4.5 and 8.7 % in 2020. The IfW has drawn up two scenarios: if the current stress situation persists until the end of April and gradually eases from May onwards, German GDP will fall by 4.5 % this year. However, if the recovery does not begin until three months later in August, German GDP would fall by 8.7 %. At the beginning of March 2020, the IfW had commented that the temporary slump in production in China would initially have an impact on Germany through the loss of export orders, and in a second stage production would also be hampered by a lack of supplies. The IfW expects the German economy to be burdened by the supply bottlenecks from Asia in the spring. In addition, the domestic economy would be impaired wherever human interaction is restricted as a preventive measure.

In its report "World Preview 2019, Outlook to 2024", Evaluate Ltd. expects the global market for prescription pharmaceuticals to grow at an average annual rate of 6.9 % until 2024, reaching USD 1.2 trillions. The market for off-patent pharmaceuticals, meanwhile, is expected to grow at an average annual rate of 4.8 % through 2024.

Expected development of the Group

Going forward, in line with its business model, Dermapharm will continue to focus on the healthcare market, particularly in the pharmaceuticals segment. We will continue to target our strategy to focus on selected niche markets and the greatest degree possible of independence from blockbuster products and heavily regulated products. In general, we operate in a sector that will continue to grow worldwide and which offers long-term growth opportunities.

In light of plans to further develop the Group as part of the three pillar strategy comprising in-house product development, internationalisation into selected markets and targeted M&A activities, the Board of Management by and large expects to continue achieving growth. Changing regulatory, competitive and economic conditions might also adversely influence the Group's revenue and earnings trend. A more detailed description of the opportunities and risks for the Group is presented in the report on opportunities and risks.

Thanks to its successful product development activities and well-filled pipeline, products with organic growth potential as well as its active acquisition policy – with the Group adding value through acquisitions in financial year 2019 – Dermapharm strives to continually expand the Group's portfolio in the "Branded pharmaceuticals and other healthcare products" segment.

With the acquisition of 70 % of the shares of Fitvia, which is domiciled in Wiesbaden, Germany, in July 2019, we are now also present in the growing market of healthy and functional nutrition against the background of increasing health and wellness awareness. In addition to tea, Fitvia sells food and dietary supplements, which are marketed in several European countries using a marketing concept based on social media and influencers. Here we see potential for the development of new marketing concepts within the Group in the future.

At the end of 2019, we successfully put into operation the new GDP-compliant (GDP - Good Distribution Practice) logistics centre in Brehna near Leipzig with approx. 12,000 m² of space. We have thus also created the logistical prerequisites for the further expansion of the Dermapharm Group. In addition, we completed the new factory and office building of Melasan in Austria for the production of food supplements at the turn of 2019 / 2020, which will now be gradually occupied and commissioned in the first half of 2020.

In the "Parallel import business" segment, as soon as it is economically feasible, in order to expand its portfolio of compounds, Dermapharm will apply to receive import licences for compounds newly introduced by manufacturers of originators. As a r esult of a change in the law in July 2019, the government's desired promotion of parallel-imported original medicines to Germany continued to exist.

Through the acquisition of the Spanish company Euromed in January 2019, we were able to expand our own value chain with the production of herbal extracts and strengthen our competence in the growth market for herbal medicines. Euromed has also many years of expertise in the development of new extracts. Here we see particularly great potential for the development of health products within the Group of companies in the future. The area of manufacturing herbal extracts have been reported in the separate "Herbal Extracts" segment since fiscal 2019.

By acquiring a 20 % interest in FYTA, a Dutch producer of cannabis products for pharmaceutical applications, in March 2019, Dermapharm gained access to the market for medical cannabis. At the same time, the Company can further expand its portfolio in the new pain treatment therapeutic area.

Spread of the coronavirus

The Dermapharm Group has focused its production and sales activities on the European market; the main production site of the Group for the development, production and logistics of branded pharmaceuticals is still Brehna near Leipzig. The company continuously monitors the stock of raw materials to ensure smooth production. As of the beginning of April 2020 Dermapharm is not affected by supply bottlenecks. Dermapharm's most important production facilities have already been classified as companies with critical infrastructure for the state community in accordance with Section 6 of the BSI Kritis Ordinance and will therefore continue to operate for the duration of the crisis. Therefore, at this point in time no concrete economic impact of the corona pandemic on Dermapharm's business figures is foreseeable.

Acquisition of Allergopharma

In February 2020 Dermapharm was able to acquire Allergopharma GmbH & Co. KG from Merck KGaA, a company specialised in therapeutic agents for the desensitisation of allergies . The antitrust requirements are given in the meantime. The closing took place on 31 March 2020, excluding the sales unit in China because the creation of the official requirements generally takes a long time. Both contract partners endeavor to complete the transaction quickly. Against this background, Allergopharma's sales and earnings contributions are not yet included in the current Group prognosis.

Fundamental assumptions underlying the Group's forecast

The forecast for financial year 2020 was prepared taking into account known events which had taken place at the time this annual report was prepared. In addition, the macroeconomic and industry-specific outlook were also factored into the forecast.

Furthermore, our forecast is based on the following assumptions:

- Largely stable regulatory conditions in the markets of relevance to us
- Current group of consolidated companies to remain constant, including newly acquired companies as described
- Optimisation of manufacturing costs by making more products in house
- Successful market launch of own development pipeline
- Successful integration of companies acquired in 2019 and 2020 and systematic utilisation of created synergies
- Largely stable tax conditions in the countries in which our Group companies operate
- No significant effects of the coronavirus spread on business activities of Dermapharm

Dermapharm Holding SE's expected performance

In 2020, the Board of Management expects that it will be able to further reduce the additional need for external consultants resulting from the Company's focus on the capital market, in part by using the Company's own internal resources. This is intended to further rein in overall external consulting and associated costs.

Fundamental assumptions underlying Dermapharm Holding SE's forecast

The forecast for financial year 2020 was prepared taking into account known events which had taken place at the time this annual report was prepared.

Furthermore, our forecast is based on the following assumptions:

- Maintaining the terms of the agreement in place with the subsidiaries on the charging on of costs
- Current group of consolidated companies to remain constant
- Largely stable tax conditions

4.2 Overall assertion on future development

Dermapharm's business model is geared towards markets which offer sustainable growth potential due to general and industry-specific growth mechanisms in the pharmaceuticals and healthcare market, as well as to growth forecasts by independent institutions. However, that growth potential also entails operating challenges and risks which are determined to a large extent by changing or additional state regulatory measures, such as cost-reduction measures and more cumbersome requirements for authorisations. As a result, the future development of the Group's revenue and earnings will be characterised in equal parts by growth-promoting and growth-inhibiting conditions.

However, in light of our strategic alignment in the "Branded pharmaceuticals and other healthcare products" segment and our consistent implementation of the three-pillar strategy, we believe that the outlook for the future remains positive on balance.

The new "Herbal extracts" segment is expected to contribute to the Group's growth in the coming years. Euromed can rely on a broad international customer base, many years of development expertise and production facilities which are designed accordingly.

Due to the steadily growing market suitable for imports, we also continue to anticipate a relatively stable and slightly increasing revenue trend for the "Parallel import business" segment. However, this market will increasingly be dominated by products subject to reference pricing and direct discount agreements between health insurers and manufacturers of originators, which is expected to lead to a decline in margins and thus also the operating result.

Overall, the Board of Management therefore expects the Group to experience continued year-on-year growth in financial year 2020. Based on volume gains and successful launches of self-developed products, the Management Board expects organic growth in Group revenues and EBITDA to be in the upper single-digit percentage range. This does not yet take into account the growth impetus from the acquisition of Allergopharma. Following the final closing, which then includes the sales unit in China, we will substantiate our forecast as soon as possible in one of the next quarterly releases. However, as the ongoing corona pandemic is having a negative impact on the economic development in Europe at the date of publication, Dermapharm cannot exclude possible negative effects on this forecast.

Compared to financial year 2019, we expect a moderate improvement in Dermapharm Holding SE's EBITDA.

5. Information relevant to acquisitions in accordance with § 315a and § 289a of the German Commercial Code (Handelsgesetzbuch, HGB)

5.1 Composition of issued capital, rights and obligations/restrictions attaching to shares affecting the transfer of shares

At 31 December 2018, the share capital amounted to EUR 53,840,000.00 divided into 53,840,000 no-par value bearer shares. Each no-par value share carries one vote.

New shares will also be issued as bearer shares, unless otherwise agreed upon issuance. There are no shares conferring special rights which grant powers of control over the Company.

In the event of a capital increase, dividend rights attaching to new shares may be stipulated in derogation of § 60 (2) German Stock Corporation Act (Aktiengesetz, AktG).

The Board of Management stipulates the form and content of share certificates and any dividend and renewal coupons. Specifically, the Company may also combine several no-par value shares in a single share certificate (global certificates). Shareholders are not entitled to receive definitive share certificates for their respective shareholdings.

5.2 Restrictions applicable to voting rights or the transfer of shares

The Board of Management of Dermapharm Holding SE is not aware of any restrictions applicable to voting rights or the transfer of shares.

5.3 Direct or indirect interests in the Company's capital that exceed 10 % of voting rights

On the basis of notifications of significant voting rights received in accordance with §§ 21 and 22 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) or in accordance with §§ 33 and 34 WpHG as well as notifications of managers' transactions in accordance with Article 19 of the EU Market Abuse Regulation, the Board of Management is aware of the following direct or indirect interests in the Company's capital that exceed 10 % of the voting rights:

Themis Beteiligungs-Aktiengesellschaft, Lil-Dagover-Ring 7, 82031 Grünwald, Germany – 75.05 % share of voting rights

We published notifications of corresponding transactions from 9 February 2018 on our website at www.ir.dermapharm.de.

5.4 Shares conferring special rights granting powers of control

There are no shares conferring special rights which grant powers of control over the Company.

5.5 Type of voting rights control if employees hold an interest in the capital and do not exercise their control rights directly

Employees holding an interest in the capital of Dermapharm Holding SE can directly exercise the control rights to which the stocks entitle them in accordance with the provisions of the Articles of Association and the law.

5.6 Statutory provisions and provisions of the Articles of Association on the appointment and dismissal of members of the Board of Management and amendments to the Articles of Association

§§ 84 and 85 AktG govern the appointment and dismissal of members of the Board of Management. Under these provisions, the Supervisory Board appoints members of the Board of Management for a maximum term of five years. Members may be reappointed or their appointments may be renewed for maximum terms of five years in each case. Members are appointed to and dismissed from the Board of Management exclusively in accordance with the statutory provisions (§§ 84, 85 AktG).

Article 7 of the Articles of Association contains no special regulations on the appointment or dismissal of individual or all members of the Board of Management. The Supervisory Board is solely responsible for appointments and dismissals. It appoints members of the Board of Management for maximum terms of five years in each case. Reappointments are possible. The Board of Management comprises one or more persons. The Supervisory Board sets the number of members of the Board of Management. The Supervisory Board can appoint a chairman of the Board of Management; furthermore, it can appoint a deputy chairman. For Board of Management resolutions, in derogation of Article 50 (2) of the SE Regulation, the chairman of the Board of Management has no right to cast a tie-breaking vote in the event of a tie.

Rules governing amendment of the Articles of Association are set forth in §§ 133 et seq. and 179 et seq. AktG. As a rule, this requires a resolution taken by the Annual General Meeting. Resolution by the Annual General Meeting requires a majority of at least three-quarters of the share capital represented at the time the resolution is adopted. The Articles of Association can stipulate another capital majority, however only a larger capital majority for amending the object of the Company.

In accordance with Article 16 of the Articles of Association, the Supervisory Board is however authorised to resolve amendments to the Articles of Association that are merely editorial in nature.

5.7 Board of Management's authority to issue or repurchase shares

The Board of Management is authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period until 1 January 2023 (inclusive) against cash or in-kind contributions by a total of up to EUR 16,100,000.00 by issuing new no-par value bearer shares (Authorised Capital 2018). The Board of Management is authorised, subject to the consent of the Supervisory Board, to stipulate the further details concerning the rights attaching to the shares and the terms of their issue. The dividend rights attaching to the new shares may be stipulated in derogation of § 60 (2) AktG; specifically, the new shares may also carry dividend rights from beginning of the financial year preceding the year in which the shares were issued if at the date of issuance of the new shares no resolution has been passed by the Annual General Meeting in relation to the appropriation of net profits for that financial year.

Shareholders must generally be granted the statutory right to subscribe the new shares. The subscription right may also be structured in whole or in part as an indirect subscription right within the meaning of § 186 (5) sentence 1 AktG.

However, the Board of Management is authorised, subject to the consent of the Supervisory Board, to exclude in whole or in part the shareholders' subscription right in accordance with the following provisions:

a) The Board of Management is authorised, subject to the consent of the Supervisory Board, to exclude fractional amounts from shareholders' subscription rights and to exclude shareholders' subscription rights to the extent that this is necessary in order to grant the holders or creditors of conversion or option rights from convertible or warrant-linked bonds issued or to be issued by the Company or a domestic or foreign entity in which Dermapharm Holding SE directly or indirectly holds a voting and capital majority, or to grant subscription rights to those obligated in the case of an own conversion right of the Company to the extent to which they would be entitled after exercising their conversion or option rights or after fulfilling a conversion or option obligation.

b) The Board of Management is furthermore authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights pursuant to § 186 (3) sentence 4 AktG in the event of capital increases against cash contributions if the issue price of the new shares is not significantly lower than the stock exchange price of the existing shares and the shares issued by exercising this authorisation to exclude subscription rights do not exceed a total of 10 % of the share capital, either at the time this authorisation becomes effective or at the time it is exercised. New and existing shares of the Company that are issued or sold during the term of this authorisation on the basis of a further authorisation pursuant to or in accordance with § 186 (3) sentence 4 AktG with the exclusion of subscription rights shall be counted towards this 10 % limit; in addition, shares of the Company that are issued or sold to service conversion or option rights or to meet conversion or option obligations arising from convertible or warrant-linked bonds, provided that the bonds are issued during the term of this authorisation by analogous application of § 186 (3) sentence 4 AktG on the basis of another authorisation excluding subscription rights, shall be counted towards this limit.

c) The Board of Management is furthermore authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights in the event of capital increases against in-kind contributions, specifically for the purpose of acquiring companies, parts of companies or equity interests in companies, in the context of mergers and/or for the purpose of acquiring other assets including rights and receivables.

d) Finally, the Board of Management is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights if the new shares are issued as part of an equity compensation program and/or as share-based payments to persons in an employment relationship with the Company or an enterprise which is dependent on or (indirectly) majority-owned by the Company, to members of the Board of Management of the Company and/or members of management boards of enterprises which are dependent on or (indirectly) majority-owned by the Company (or to third parties who transfer the economic ownership and/or the economic benefits of the shares to these persons). The new shares may also be issued using a bank or an entity operating in accordance with § 53 (1) sentence 1 or § 53b (1) sentence 1 or (7) of the German Banking Act (Kreditwesengesetz, KWG) as an intermediary, which underwrites the shares with the obligation to offer them to the aforementioned persons. The shares issued by exercising this authorisation to exclude subscription rights may not exceed a total of 5 % of the share capital, either at the date on which such authorisation enters into effect or at the date on which this authorisation is exercised. To the extent shares within the scope of this authorisation are to be granted to members of the Company's Board of Management, the Supervisory Board of the Company shall decide on the allocation of those shares in accordance with the allocation of responsibilities under German stock corporation law.

The issued capital is contingently increased by a total of up to EUR 10,700,000.00 by issuing a total of up to 10,700,000 new no-par value bearer shares (Contingent Capital 2018).

The contingent capital increase serves to grant shares to holders or creditors of convertible bonds and to holders of option rights from warrant-linked bonds issued by the Company or a domestic or foreign entity in which the Company directly or indirectly holds a voting and capital majority in the period until 25 January 2023 (inclusive) on the basis of the authorisation resolved by the Annual General Meeting of 26 January 2018. The contingent capital increase will only be implemented to the extent that conversion or option rights from the aforementioned bonds are actually exercised or conversion obligations from such bonds are fulfilled and to the extent that no other forms of fulfilment are used to service them. The new shares will be issued at the option or conversion price to be determined in accordance with the aforementioned authorisation resolution by the Annual General Meeting of 26 January 2018. The new shares carry dividend rights from the beginning of the financial year in which they are created by the exercise of conversion or option rights or the fulfilment of conversion obligations; they shall carry dividend rights as of the beginning of the financial year preceding the year in which the shares were issued if at the date of issuance of the new shares no resolution has been passed by the Annual General Meeting in relation to the appropriation of net profits for that financial year. The Board of Management is authorised, subject to the consent of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase.

5.8 Significant agreements of the Company which are conditional upon a change of control following a takeover bid

Financing agreements

As borrower, Dermapharm AG is party to promissory note loans entered into in 2014, which matures in 2021. The provisions of the financing agreements stipulate that, if a change of control occurs, the lender – each individually or in aggregate – is authorized to terminate the loan at face value (in each case plus interest accrued by the date of repayment) in the amount of the lender's respective participation in the total face value of the loan by means of written notification to the loan participants and observing a 30-day notice period. A change of control has occurred when any person or group of persons voting in concert as defined in § 22 (2) WpHG at any point in time, directly or indirectly (as defined in § 22 (1) WpHG), obtains control over the majority of the voting rights in the borrower's capital.

As borrower, Dermapharm AG is party to promissory note loans entered into in 2019, with terms maturing in 2024, 2026 and 2029. The provisions of the financing agreements stipulate that, if a change of control occurs, the lender – each individually or in aggregate – is authorized to terminate the loan at face value (in each case plus interest accrued by the date of repayment) in the amount of the lender's respective participation in the total face value of the loan by means of written notification to the loan participants and observing a 30-day notice period. A change of control has occurred if Mr Wilhelm Beier alone or together with Ms Elisabeth Beier and/or Mr Michael Beier directly or indirectly no longer hold more than 50 % of the capital shares and/or voting rights in Dermapharm Holding SE and has/have the ability to nominate the management of Dermapharm Holding SE.

In 2019, the Dermapharm Group entered into an agreement with an Austrian bank for a term loan facility to secure long-term financing for the construction of a new production and administrative facility for Melasan Produktions- und Vertriebsges. m.b.H. in Austria. The provisions of the financing agreement stipulates that, if a change of control occurs at the borrower, the lender is authorised to call in the loan with immediate effect. Control means that a person or a group of persons acting in concert directly or indirectly holds over 50 % of the borrower's shares and/or voting rights.

In 2019, the Dermapharm Group took out a syndicated loan with various German banks with an option to increase that amount and a revolving line of credit in order to secure long-term financing. The provisions of the financing agreement stipulate that, if a change of control occurs, the lender – each individually or in aggregate – is authorized to terminate the loan at face value (in each case plus interest accrued by the date of repayment) in the amount of the lender's respective participation in the total face value of the loan by means of written notification to the loan participants and observing a 10-day notice period. A change of control has occurred if Mr Wilhelm Beier alone or together with Ms Elisabeth Beier and/or Mr Michael Beier directly or indirectly no longer hold more than 50 % of the capital shares and/or voting rights in Dermapharm Holding SE and has/have the ability to nominate the management of Dermapharm Holding SE.

Exercising these termination rights could have an adverse effect on the financing of the Dermapharm Group's ongoing operations, at least temporarily.

Distribution agreements

As is customary in conducting business transactions, the Dermapharm Group has entered into an insignificant amount of exclusive distribution agreements and distribution agreements which provide for unilateral or bilateral termination options in the event of a change of control. Change of control means that a person or group of persons acting in concert sells a significant amount of the distribution partner's shares and/or voting rights.

Exercising these termination rights could have a minimal adverse effect on the Dermapharm Group's ongoing distribution operations, at least temporarily.

Agreements with members of the Board of Management

The Company has not entered into any agreements with members of the Board of Management which are conditional upon a change of control following a takeover bid.

5.9 Company agreements entered into with members of the Board of Management or employees regarding indemnity in the event of a takeover bid

The Company has not entered into any agreements with members of the Board of Management or employees regarding indemnity in the event of a takeover bid.

6. Corporate Governance Report

6.1 Corporate governance statement in accordance with § 289f and § 315d HGB

As a listed company in Frankfurt, Dermapharm Holding SE hereby issues the following corporate governance statement for the 2019 financial year on behalf of Dermapharm Holding SE and the Dermapharm Group in accordance with §§ 289f and 315d of the German Commercial Code (Handelsgesetzbuch, HGB).

The Board of Management and the Supervisory Board of Dermapharm Holding SE furthermore issue the following report on corporate governance at Dermapharm Holding SE in accordance with section 3.10 of the German Corporate Governance Code.

6.1.1 Declaration of conformity in accordance with § 161 AktG (updated January 2020)

In February 2020, the Board of Management and Supervisory Board of Dermapharm Holding SE issued the following "Declaration of Conformity February 2020" with the recommendations of the Government Commission on the German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex) in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz, AktG):

Updating their annual declaration of conformity issued in April 2019, the Board of Management and Supervisory Board of Dermapharm Holding SE, Grünwald, hereby declare that, since the date of the admission of its shares to trading on the Regulated Market of the Frankfurt Stock Exchange, the Company has complied and will continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code published by the German Federal Ministry of Justice (Bundesministerium der Justiz) in the official section of the Federal Gazette (Bundesanzeiger) in the version dated 7 February 2017 (the "Code"), published in the Federal Gazette on 24 April 2017 and amended by publication in the Federal Gazette on 19 May 2017, with the following exceptions:

- Dermapharm Holding SE's D&O insurance policy does not provide for a deductible for Supervisory Board members (deviation from section 3.8 para. 3 of the Code). Dermapharm Holding SE does not believe that having a deductible would improve the Supervisory Board members' sense of responsibility or motivation.

- The Annual General Meeting on 6 December 2017 passed a resolution that there would be no individualised disclosure of Board of Management remuneration in the Company's annual and consolidated financial statements. As such, the Company will also not implement the recommendations in section 4.2.5 paras. 3 and 4 of the Code which relate to the disclosure of the remuneration of each member of the Board of Management and the use of model tables for this purpose.

- Since Dermapharm Holding SE's Supervisory Board is composed of only three persons in accordance with its Articles of Association, no committees will be formed (deviation from sections 5.3.1 to 5.3.3 of the Code).

- All the members of the Supervisory Board receive the same remuneration (deviation from section 5.4.6 para. 1 of the Code). Since Dermapharm Holding SE's Supervisory Board is composed of only three persons in accordance with its Articles of Association, the Company does not deem it appropriate to take the status as Chair or deputy Chair of the Supervisory Board into consideration; no committees have been formed so there is no need to take committee membership into consideration either.

- The consolidated financial statements and Group management report are published within the statutory deadlines. Interim reports are published within the deadlines prescribed by stock exchange regulations. In the opinion of Dermapharm Holding SE, compliance with the publication deadlines stipulated in section 7.1.2 sentence 3 of the Code is not more conducive to the information interests of investors, creditors, employees and the public.

Grünwald, January 2020

Dermapharm Holding SE

The Board of Management The Supervisory Board

This Declaration of conformity has also been made permanently accessible to the public on the Company's website at "www.ir.dermapharm.de". All published declarations of conformity are available for download on the website.

6.1.2 Information on corporate governance practices implemented above and beyond the statutory requirements

Dermapharm Holding SE is committed to ethical and legal conduct in all its business operations. In recognition of the social responsibility that comes with being a branded pharmaceuticals manufacturer, the Board of Management and the Supervisory Board take a responsible, transparent and value-driven approach to corporate governance. For Dermapharm this means more than merely complying with statutory and prudential requirements, it also means pursuing an ethically responsible corporate philosophy that is reflected in our "Code of Business Ethics and Compliance".

The Code of Business Ethics and Compliance serves as a key framework for the Compliance organisation within the Dermapharm Group. It applies not only to Dermapharm's employees, managers and senior executives, but also to our business partners, from whom we proactively require compliance with minimum standards. The values, principles and practices laid down in the Code of Business Ethics and Compliance are intended to prevent the Company from suffering potential harm and to guard against actions being taken that are inconsistent with our corporate principles and ethics.

In addition to our compliance measures, a responsible approach to dealing with business risks is another element of good corporate governance. The aim is to enable the Board of Management to identify risks and market trends at an early stage and to respond promptly to the changed risk profile. To this end, risks are identified and assessed on a regular basis. The findings of these risk assessments are then incorporated directly into business management practices. For further information on the risks to which the Dermapharm Group is exposed, see the "Report on opportunities and risks" contained in the combined management report to this Annual Report.

6.1.3 Composition and description of the working practices of the Board of Management and Supervisory Board and the working practices of their committees

Dermapharm Holding SE is organised as a European Company (Societas Europaea, SE) and is subject in particular to the provisions of the German Stock Exchange Act on the basis of which the German Corporate Governance Code was likewise developed. A fundamental principle of German stock corporation law is that of a two-tier corporate governance system consisting of a management board and a supervisory board. The Board of Management is responsible for managing the Company while the Supervisory Board advises and supervises the Board of Management. No person may be a member of both boards at the same time. Dermapharm Holding SE's Board of Management and Supervisory Board work together in close cooperation and a spirit of trust with the aim of increasing the value of the enterprise for shareholders over the long-term.

Board of Management

Responsibilities of the Board of Management

The Board of Management manages the Company's business under its own responsibility and in the Company's interest with the aim of increasing value over the long term. This includes taking into account the interests of shareholders, employees and other groups associated with the Company (stakeholders). The members of the Board of Management are collectively responsible for managing the Company. The Board of Management manages the Company's business in accordance with the law, the Articles of Association, the rules of procedure and the schedule of responsibilities.

Composition and competences of the Board of Management

In financial year 2019 the Board of Management comprised four members with the following areas of responsibility:

- Dr Hans-Georg Feldmeier, Chairman of the Board of Management, is responsible for Product Development and Production.
- Stefan Grieving, member of the Board of Management (until 30 August 2019), was responsible for Marketing and Sales.
- Dr Jürgen Ott, member of the Board of Management (from 1 October 2019), is responsible for Marketing and Sales.
- Karin Samusch, member of the Board of Management, is responsible for Business Development, HR, Legal & Compliance.
- Stefan Hümer, member of the Board of Management, is responsible for Finance, Corporate Communications and Investor Relations.

Working practices of the Board of Management

Within the scope of the rules of procedure and the resolutions of the Board of Management, the members of the Board of Management are independently responsible for the functions assigned to them under the applicable schedule of responsibilities. Notwithstanding their assigned functions under the schedule of responsibilities, the members of the Board of Management as a whole share accountability for management. All members of the Board of Management must keep themselves informed of material business transacted within the business divisions.

The Board of Management decides by resolution on all matters with respect to which the adoption of a resolution is required by law, the Articles of Association or the rules of procedure. Members of the Board of Management may submit a matter from their respective department to the Board of Management for resolution.

Meetings of the Board of Management are convened by the Chairman of the Board of Management. The dates and the notice of meeting are set by the Chairman of the Board of Management who also chairs the Board of Management meeting. In urgent cases or if two members of the Board of Management so move, a Board of Management meeting will be convened without undue delay.

The Board of Management has quorum if at least half of its members are present or otherwise participate in the adoption of the resolution. Votes are decided by simply majority of the votes cast. In the event of a tie, the motion is denied.

Resolutions of the Board of Management may also be adopted outside the context of meetings (or by way of combined resolutions) by oral or telephone voting, voting in text form (§126 of the German Civil Code (Bürgerliches Gesetzbuch, BGB)) and/or using other modes of telecommunication or electronic media, if so ordered by the Chairman of the Board of Management at least two days in advance; in urgent cases, the period may be shortened appropriately.

The Board of Management works together with the Supervisory Board in the Company's interest. It coordinates the strategic direction of the Company with the Supervisory Board and discusses the progress made in implementing the corporate strategy with the Supervisory Board on a regular basis. The Board of Management must provide the Supervisory Board with any and all information it requires for exercising its supervisory duties.

At least once every three months, the Board of Management reports to the Supervisory Board on the course of business of the Company and the Group and its expected performance. The Board of Management furthermore keeps the Supervisory Board fully and regularly informed about all issues of relevance to the business as pertains to strategy, planning, business performance, the risk situation, risk management and compliance.

For certain transactions set out in the rules of procedure for the Board of Management, the Board of Management must obtain the prior approval of the Supervisory Board.

Dermapharm's Board of Management has not established any committees.

Board of Management remuneration

The remuneration report, which is contained in the combined management report of the Board of Management, presents the main features of the remuneration scheme for Dermapharm's Board of Management as well as overall disclosures of the remuneration of the members of the Board of Management.

Supervisory Board

Responsibilities and competences of the Supervisory Board

The Supervisory Board appoints the members of the Board of Management. It also supervises and advises the Board of Management with respect to the strategic direction of the business. Through regular dialogue with the Board of Management, the Supervisory Board is kept informed about business development, strategy, corporate planning, the risk situation, risk management and compliance.

It approves the corporate budgetplanning and the annual financial statements of Dermapharm Holding SE and the consolidated financial statements of the Dermapharm Group.

Composition of the Supervisory Board

In financial year 2019, the Company's Supervisory Board consisted of three members.

The following persons were members of the Supervisory Board:

- Chairman of the Supervisory Board: Wilhelm Beier
- Deputy Chairman of the Supervisory Board: Dr Erwin Kern
- Member of the Supervisory Board: Lothar Lanz

Working practices of the Supervisory Board

Meetings of the Supervisory Board are convened by the Chairman in text form (§ 126b BGB) subject to a notice period of ten (10) calendar days; the place of the meeting shall be determined by the Chairman. For the purpose of calculating the 10-day period, the date on which the notice of meeting is sent and the date of the meeting do not count; it is sufficient if the notice of meeting is sent within the time. In urgent cases, the Chairman may reasonably shorten the notice period and may also call the meeting orally or by telephone. The rules of procedure for the Supervisory Board may provide for a shorter period than the period specified in sentence 1 either generally or in specific cases.

The place and time of the meeting and the agenda are to be included in the notice of meeting. Amendments to the agenda must be communicated at least three days prior to the meeting, unless the urgency of the case justifies a shorter notice period.

Resolutions may only be adopted at improperly convened meetings, or on agenda items that were not properly notified in advance, if none of the members of the Supervisory Board object. In such cases, absent Supervisory Board members are to be given the opportunity to object to the resolution or cast their vote afterwards within a reasonable period to be stipulated by the Chairman. The resolution shall only become valid if the absent members do not object to the resolution (or they consent to it) within that period, or have subsequently cast their vote.

The Chairman chairs the meetings of the Supervisory Board and determines the order in which matters will be discussed and the nature and order of voting.

Resolutions of the Supervisory Board are generally adopted in the context of meetings. Absent Supervisory Board members may also vote on the resolution by arranging for written votes to be submitted in accordance with § 108 (3) AktG. Where prescribed by the Supervisory Board Chairman prior to voting, absent Supervisory Board members may also cast their votes by telephone, in text form (§ 126b BGB) or using other modes of telecommunication or electronic media, including subsequently within a period set by the Chairman, if applicable.

Resolutions of the Supervisory Board may also be adopted outside meetings (or by way of combined resolutions) by oral or telephone voting, voting in text form (§126b BGB) and/or using other modes of telecommunication or electronic media, if so ordered by the Chairman of the Supervisory Board. Members of the Supervisory Board have no right to object to this form of adopting resolutions. The above provisions (paragraphs 1 and 2) apply mutatis mutandis in relation to the notice and form of the Chairman's order.

Even if the order is not issued properly (on time), a resolution will still be valid if no member of the Supervisory Board objects. In such cases, absent or non-participating Supervisory Board members are to be given the opportunity to object to the resolution or cast their vote afterwards within a reasonable period to be stipulated by the Chairman. The resolution shall only become valid if the absent or non-participating members do not object to the resolution (or they consent to it) within that period, or have subsequently cast their vote.

The Supervisory Board has quorum if at least half the number of members it is required to have participate in the adoption of the resolution. However, if the Supervisory Board does not have its full complement of members for a period of more than two months, the Supervisory Board will be deemed not to have quorum from the expiry of this period until such time as it has its full complement of members, regardless of the number of remaining members.

For the purposes of the provisions regarding these types of resolutions, a member of the Supervisory Board will be deemed to have participated in the adoption of the resolution if he or she abstains from voting.

Unless a different majority is prescribed by law, the Supervisory Board adopts resolutions by a simple majority of the votes cast. If voting is tied, the Chairman of the Supervisory Board has the casting vote; this also applies in the case of elections. If no Chairman has been appointed or the Chairman abstains, a motion is deemed defeated in the event of a tie. If the Chairman is unable to vote, the Deputy Chairman is not entitled to the casting vote.

The Chairman is authorised to implement the resolutions of the Supervisory Board and to give and take receipt of the declarations of intent necessary for this purpose.

Remuneration of the Supervisory Board

The remuneration report, which is contained in the combined management report of the Board of Management, presents the main features of the remuneration scheme for Dermapharm's Supervisory Board as well as overall disclosures of the remuneration of the members of the Supervisory Board.

Transparent corporate governance

Transparent corporate governance is very important to the Board of Management and the Supervisory Board of Dermapharm Holding SE. Our shareholders, financial analysts, shareholder associations, all capital market participants and the media are regularly updated about the state of the business and all material changes to the business. We primarily use the internet to provide comprehensive and timely information to all parties alike. We report on the situation and results of Dermapharm Holding SE by way of:

- interim reports,
- the annual report,
- general meetings,
- press releases,
- conference calls and
- special events with financial analysts domestically and abroad.

The financial calendar lists the routine reporting dates. Ad hoc notices are published if circumstances arise at Dermapharm Holding SE outside the routine reporting dates, and such circumstances would be likely to materially influence the price of Dermapharm Holding SE shares.

The financial calendar and ad hoc notices are published online at www.ir.dermapharm.de.

6.1.4 Stipulation of targets to promote participation by women and men in managerial positions in accordance with § 76 (4) and § 111 (5) of the German Stock Corporation Act

In accordance with § 111 (5) AktG, the Supervisory Board set targets in 2018 for female representation on the Supervisory Board and the Board of Management as well as periods for achieving such targets. The periods are no longer than five years.

Report on the target set for female representation on the Supervisory Board and target achievement

At the time the target was set on 10 January 2018, the Supervisory Board of Dermapharm Holding SE had a total of three members. There were no female members. There are no current plans to change the composition of the Supervisory Board during the current term of office.

The existing target for female representation is to be retained for the period until 30 July 2022, and thus for the full current term of office of the members of the Supervisory Board, which in ordinary circumstances will run until the Annual General Meeting in 2022.

The Supervisory Board of Dermapharm Holding SE decided that the target for female representation on the Supervisory Board should, until further notice, correspond with the existing level of female representation, namely 0 %. 30 June 2022 is the date by which the above targets are to be achieved. The targets will therefore be revised in 2022 at the latest.

Report on the target set for female representation on the Board of Management and target achievement

At the time the target was set on 10 January 2018, the Board of Management of Dermapharm Holding SE had a total of four members, one of whom was a woman. The composition of the Board of Management did not change during the 2019 financial year.

The Board of Management of Dermapharm Holding SE decided that the target for female representation on the Board of Management should, until further notice, correspond with the existing level of female representation, namely 25 %. 30 June 2022 is the date by which the above targets are to be achieved. The targets will therefore be revised in 2022 at the latest.

Report on the target set for female representation in the two levels of management below the Board of Management and target achievement

In accordance with § 76 (4) AktG, the Board of Management set targets in 2018 for female representation in the two levels of management below the Board of Management as well as periods for achieving such targets. The periods are no longer than five years.

The Board of Management of Dermapharm Holding SE set the following targets for female representation in the two levels of management below the Board of Management:

The target set for female representation:

a. in the first level of management below the Board of Management is 35 % until further notice; and

b. in the second level of management below the Board of Management is 35 % until further notice.

The level of female representation in the two levels of management below the Board of Management at the time of determination on 10 January 2018 was:

- First level of management: 40 %
- Second level of management: 49 %

The existing target for female representation in both levels of management is to be retained for the period until 30 July 2022.

30 June 2022 is the date by which the above targets are to be achieved. The targets will therefore be revised in 2022 at the latest.

Female representation in the first level of management was 29 % as at 31 December 2019 (previous year: 46 %), thus missing the target set at the beginning of 2018. This decline was due to the acquisitions of Euromed and Fitvia as well as the formation of mibetec US. The management level of the aforementioned companies consists of primarily men.

Female representation in the second level of management was 49 % as at 31 December 2019 (previous year: 50 %), thus also slightly exceeding the target set at the beginning of 2018.

Dermapharm seeks to achieve a balanced gender ratio when filling vacancies. We also place importance on reasonable female representation when re-filling managerial positions so as to increase the ratio of women.

Generally speaking, however, the personal suitability and professional qualifications of candidates are the most important factors, not gender.

6.2 Notes to the non-financial report pursuant to § 315b HGB

Employees, quality policy, environmental concerns and Dermapharm's mission statement

Dermapharm Holding SE has disclosed the Dermapharm Group's sustainability-related activities in a Group non-financial report. In accordance with the German Act Implementing the CSR Directive (CSR-Richtlinie-Umsetzungsgesetz), the report provides information within the meaning of §§ 315b et seq. HGB about the Group's sustainability strategy and its sustainable actions as far as environmental, employee and social concerns, human rights and anti-corruption are concerned. The Group non-financial report is published on the Company's website www.ir.dermapharm.de under Publications.

6.3 Remuneration report pursuant to § 289a and § 315a (2) HGB

The remuneration report describes the main features of the remuneration scheme for members of the Board of Management and explains the structure and amount of total remuneration paid. It also provides information regarding the benefits promised to members of the Board of Management if their employment is terminated and the principles for and amount of remuneration paid to the members of the Supervisory Board.

6.3.1 Resolution exempting from the obligation to disclose Board of Management remuneration on an individualised basis pursuant to §§ 286 (5), 314 (3) sentence 1, 315a (1) HGB:

The Annual General Meeting on 6 December 2017 passed a resolution that there would be no individualised disclosure of Board of Management remuneration in the Company's annual and consolidated financial statements. As such, the Company will also not implement the recommendations in section 4.2.5 paras. 3 and 4 of the Code which relate to the disclosure of the remuneration of each member of the Board of Management and the use of model tables for this purpose.

Please refer to note 9. b) of the notes to the consolidated financial statements in this annual report for the aggregate amount of remuneration paid to members of the Board of Management in financial year 2019.

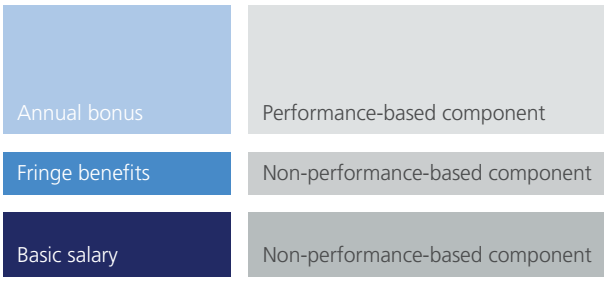
6.3.2 Board of Management remuneration

In accordance with § 87 AktG, the Supervisory Board of Dermapharm Holding SE duly addresses the issue of the Board of Management's remuneration and the reasonableness of such remuneration. It does so regularly, at least once each year. The individual components and their impact on future Board of Management remuneration are discussed and included in the Supervisory Board's review. A comparison with national and international companies is also performed as part of this.

Main features of the remuneration scheme

The Board of Management remuneration scheme valid for the reporting period entered into force across the board for all Board of Management members on 1 January 2018. It is geared towards creating incentives for lasting and successful business performance and added value, which the members of the Board of Management are intended to share in. Special achievements are intended to be rewarded, while failure to achieve targets is to lead to a noticeable reduction in remuneration. The individual performance-based components are subject to a cap.

The single remuneration components consist of the following:



Non-performance-based components

Fixed salary

The fixed salary is a fixed annual basic salary paid in 12 equal monthly instalments. As all other components of remuneration are variable and can fall to as low as zero, the fixed salary is the minimum amount of remuneration paid to Board of Management members.

Fringe benefits

The members of the Board of Management receive other remuneration in the form of fringe benefits, which essentially comprise the private use of a company car and subsidised health and nursing care insurance. The remuneration does not include [contributions to] a company-organised pension scheme.

Performance-based component

Variable components

In addition to the fixed salary, there is also a variable component (bonus) which is capped at a maximum amount and can be as low as zero. The performance-based component is structured in the same way for all Board of Management members.

Before the beginning of each financial year, the Supervisory Board sets target variable remuneration for the coming financial year (short-term and long-term components) for the Board of Management in relation to business performance. The reference figure is absolute consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation) as taken from the three-year operating plan approved by the Supervisory Board. A long-term incentive is created by virtue of the fact that the bonus for a particular financial year is calculated by reference to the consolidated EBITDA generated in that financial year (baseline year) and the two subsequent financial years (multi-year calculation basis). The targets for the 1st, 2nd and 3rd-year components of the bonus are set based on the 3-year plan approved for the baseline year. The Supervisory Board sets the targets within the first four months of the baseline year having regard to current developments.

For each annual component included in the bonus, target amounts were set assuming 100 % of the target is achieved. The amount paid out for the respective component depends on the percentage of target achieved as follows:

Target achievement (in % of the associated EBITDA target)	**Payout amount** (in % of the associated target amount)
< 95 %	0 %
≥ 95 % and ≤ 97.5 %	50 %
≥ 97.5 % and ≤ 102.5 %	100 %
≥ 102.5 %	150 %

The percentage of target achieved for each component is determined based on the Company's audited and adopted consolidated financial statements for the relevant financial year. In the event of unscheduled developments, particularly in the case of acquisitions, divestments, reallocations in the accounting system and other similar non-recurring measures, the actual EBITDA generated in the respective year may, for the purposes of measuring the percentage of target achieved, be adjusted for the impacts of such developments at the Supervisory Board's reasonable discretion, to the extent that the relevant measure has not already been taken into account when setting the EBITDA target, or not taken into account to an appropriate extent.

The respective components of the bonus fall due for payment once the Supervisory Board has established the percentage of target achieved for the relevant financial year.

Absolute cap

Total remuneration, i.e. the sum of the fixed salary and the annual performance-based bonus, is subject to an absolute cap for each Board of Management member every year of the term of their contract. The amount of total remuneration is reasonable compared to other stock corporations and other companies of a similar size. It takes both positive and negative developments into account. In addition, the individual components do not encourage the Board of Management to take unreasonable risks. In summary, it can be said that the remuneration paid to the members of Dermapharm Holding SE's Board of Management is geared towards sustainability.

For the 2019 financial year, the Supervisory Board approved advance quarterly payments towards the short-term component. Provisions were set aside in financial year 2019 to cover the potential remaining payments in respect of the short-term component and the estimated amount payable for the long-term components (2020 and 2021), and these payments will be made in the following year in each case.

Commitments to Board of Management members

If a member of the Board of Management is temporarily unfit for work as a result of illness or for other reasons for which the member is not responsible, his or her remuneration will continue to be paid for a duration of six weeks, but not beyond the termination of his or her contract of service. Members of the Board of Management do not otherwise have any entitlement to the continued payment of remuneration. For periods of absence during which, according to the above, there is no entitlement to the continued payment of remuneration, the variable remuneration is prorated.

Miscellaneous

In addition to the above remuneration, the Supervisory Board may, at its discretion, award the members of the Board of Management additional non-recurring bonus payments up to the amount of their fixed annual remuneration in a single financial year, including in conjunction with the termination of their contract of service. For the sake of clarity, the contracts of service of Board of Management members do not establish an entitlement to receive such additional bonuses.

If a member of the Board of Management is dismissed for cause (§ 84 (3) AktG), the Company has the right to terminate his or her contract of service, subject to the statutory notice period under § 622 (1) and (2) BGB. In such a case, the Board of Management member will receive a severance payment.

The right to terminate contracts of service for cause pursuant to § 626 BGB remains unaffected. The Company is not obligated to make a severance payment in the event that it terminates the contract of service without notice for cause.

The members of the Board of Management have no entitlement to compensation in the event of a change of control.

All members of the Board of Management are covered by D&O insurance as part of a Group policy, which requires them to pay a deductible within the statutory framework.

6.3.3 Supervisory Board remuneration

Remuneration scheme for the Supervisory Board according to the Articles of Association.

The remuneration scheme for the Supervisory Board is governed by Article 15 of Dermapharm Holding SE's Articles of Association.

According to this provision, the members of the Supervisory Board receive a fixed amount of remuneration for each full financial year of their Supervisory Board membership, amounting to EUR 70,000 for each Supervisory Board member.

If a Supervisory Board member's term of office is less than a full financial year, or if a financial year is shorter than a calendar year, the above remuneration under paragraph 3 will be prorated by reference to the duration of Supervisory Board membership. It is payable quarterly following the expiry of the relevant calendar quarter.

The members of the Supervisory Board also receive reimbursement for their expenses. They also receive a refund of the value added tax payable in respect of their remuneration and expenses.

Supervisory Board remuneration in financial year 2019:

- Chairman of the Supervisory Board: Wilhelm Beier, EUR 52,500. A provision was created for the remaining amount of EUR 17,500.
- Deputy Chairman of the Supervisory Board Dr Erwin Kern, EUR 52,500. A provision was created for the remaining amount of EUR 17,500.
- Member of the Supervisory Board: Lothar Lanz, EUR 52,500. A provision was created for the remaining amount of EUR 17,500.

Miscellaneous

Other than the remuneration described above, the members of the Supervisory Board have not been granted any further remuneration or benefits for personal services rendered in connection with their work on the Supervisory Board; nevertheless, all members of the Supervisory Board are covered by D&O insurance as part of a Group policy, which requires them to pay a deductible that corresponds with the statutory framework for the deductible payable by the members of the Board of Management.

7. Concluding declaration to the dependent company report

Concluding declaration to the report on relationships with affiliated companies (dependent company report), § 312 (3) sentence 3 AktG

The Board of Management declares that, with regard to the legal transactions and measures cited in the report on relationships with affiliated companies in the reporting period from 1 January 2019 to 31 December 2019 and based on the circumstances known to us at the time when the legal transactions or measures were undertaken or omitted, the Company received appropriate consideration for each legal transaction and the Company was not adversely affected by the fact that measures were undertaken or omitted.

Grünwald, 6 April 2020

Dr Hans-Georg Feldmeier
Chief Executive Officer

Stefan Hümer
Chief Financial Officer

Dr Jürgen Ott
Chief Marketing Officer

Karin Samusch
Chief Business Development Officer

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

Assets EUR thousand	Note	31 December 2019	31 December 2018
Non-current assets			
Intangible assets	4.1	293,031	189,935
Goodwill	4.1	202,245	54,622
Property, plant and equipment	4.2	132,585	80,874
Investments accounted for using the equity method	4.3	62,113	3,786
Equity investments	4.4	395	382
Other non-current financial assets	4.5	1,562	3,706
Deferred tax assets	4.18	-	39
Total non-current assets		**691,931**	**333,343**
Current assets			
Inventories	4.6	175,643	116,966
Trade receivables	4.7	48,879	34,124
Other current financial assets	4.8	6,040	1,365
Other current assets	4.8	5,396	4,272
Tax assets	4.18	231	1,990
Cash and cash equivalents	4.9	114,956	212,520
Non-current assets held for sale	4.10	1,796	-
Total current assets		**352,941**	**371,238**
Total assets		**1,044,871**	**704,581**

Equity and liabilities EUR thousand	Note	31 December 2019	31 December 2018
Equity			
Issued capital	4.11	53,840	53,840
Capital reserves	4.11	92,754	100,790
Retained earnings	4.11	139,067	100,993
Other reserves	4.11	(7,012)	(3,173)
Equity attributable to owners of parent		**278,649**	**252,449**
Non-controlling interests		5,841	3,636
Total equity		**284,490**	**256,085**
Non-current liabilities			
Provisions for employee benefits	4.12	56,976	50,726
Non-current financial liabilities	4.14	543,347	232,743
Other non-current financial liabilities	4.16	18,684	3,395
Other non-current liabilities	4.16	11,915	10,783
Deferred tax liabilities	4.18	27,038	4,452
Total non-current liabilities		**657,960**	**302,098**
Current liabilities			
Other provisions	4.13	16,238	8,586
Current financial liabilities	4.14	11,264	71,577
Trade payables	4.15	35,355	28,181
Other current financial liabilities	4.17	7,079	6
Other current liabilities	4.17	26,571	15,016
Tax liabilities	4.18	5,914	23,032
Total current liabilities		**102,421**	**146,398**
Total equity and liabilities		**1,044,871**	**704,581**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 2019 AND 2018 FINANCIAL YEARS

EUR thousand	Note	2019	2018
Revenue	5.1	700,879	572,424
Change in inventories	4.6	13,779	4,264
Own work capitalised	4.1	12,632	10,200
Other operating income	5.2	8,508	7,767
Cost of materials	4.6	(343,570)	(287,124)
Personnel expenses	5.3	(115,923)	(92,257)
Depreciation and amortisation	4.1, 4.2	(50,125)	(30,327)
Other operating expenses	5.4	(106,667)	(77,438)
Operating result		**119,513**	**107,509**
Share of profit/loss of companies accounted for using the equity method, after tax	4.3	(1,111)	1,796
Financial income	5.5	2,736	3,949
Financial expenses	5.5	(11,073)	(9,018)
Financial result		**(9,448)**	**(3,272)**
Earnings before taxes		**110,066**	**104,237**
Income tax expenses	4.18	(32,254)	(29,011)
Profit or loss for the period		**77,811**	**75,226**
Other comprehensive income not reclassified to profit or loss in subsequent periods:			
Actuarial gains/losses from remeasurement of defined benefit pension plans	4.12	(6,502)	(1,153)
Deferred taxes relating to items not subject to reclassification	4.18	2,057	(367)
Gains/losses from remeasurement of property, plant and equipment		(117)	-
Other comprehensive income which may be reclassified to profit or loss in subsequent periods:			
Foreign operations - currency translation differences	2.6	723	581
Other comprehensive income, after tax		**(3,839)**	**(939)**
Total comprehensive income for the period		**73,972**	**74,287**

EUR thousand	Note	2019	2018
Profit or loss for the period attributable to			
Owners of parent		77,196	75,323
Non-controlling interests		616	(97)
		77,811	**75,226**
Total comprehensive income for the period attributable to			
Owners of parent		73,357	74,383
Non-controlling interests		616	(97)
		73,972	**74,287**
Earnings per share			
Basic (= diluted) earnings per share (EUR)	5.6	**1.43**	**1.41**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 2019 AND 2018 FINANCIAL YEARS

EUR thousand	Note	2019	2018
Earnings before taxes		110,066	104,237
Depreciation and amortisation (reversals of depreciation and amortisation) of fixed assets	4.1, 4.2	47,877	30,326
(Increase)/decrease in working capital (assets)	4.5, 4.6, 4.7, 4.8	(25,493)	47,720
Increase/(decrease) in working capital (liabilities)	4.13, 4.15, 4.16, 4.17	10,484	(2,583)
Increase/(decrease) in provisions for employee benefits	4.12	(252)	(169)
Other non-cash items		892	662
Share of (profit)/loss of companies accounted for using the equity method, after tax		1,111	(1,796)
(Gain)/loss on disposal of non-current assets	4.1, 4.2	4	12
Interest expense/(income)	5.5	8,009	4,200
Income tax payments	4.18	(52,084)	(23,482)
Net cash flows from operating activities		**100,614**	**159,128**
Proceeds from the disposal of intangible assets and property, plant and equipment	4.1, 4.2	1,457	540
Proceeds from the disposal of financial assets		497	-
Business combinations, less cash	2.7	(277,317)	(93,059)
Proceeds from excess purchase price payments in the context of business combinations		-	7,195
Payments for investments in intangible assets and property, plant and equipment	4.1, 4.2	(46,442)	(25,973)
Payments for investments in financial assets	4.4	(60,349)	(211)
Dividends from companies accounted for using the equity method	4.3	-	1,524
Cash flows from investing activities		**(382,154)**	**(109,983)**

EUR thousand	Note	2019	2018
Proceeds from the issue of shares	4.11	-	107,520
Transaction costs in connection with the issue of shares	4.11	-	(3,083)
Dividends paid		(41,457)	-
Proceeds from borrowings	4.14	460,776	155,000
Transaction costs in connection with borrowings	4.14	(788)	-
Repayments of borrowings	4.14	(224,084)	(98,101)
Payments of lease liabilities		(4,101)	(177)
Proceeds from reimbursements of interest paid		1,958	9,311
Interest paid	5.5	(8,343)	(6,020)
Cash flows from financing activities		**183,962**	**164,449**
Net increase/decrease in cash, cash equivalents and bank overdrafts	4.9, 4.14	**(97,578)**	**213,594**
Cash, cash equivalents and bank overdrafts as at 1 January	4.9, 4.14	206,439	(7,204)
Effect of exchange rate changes on cash and cash equivalents		132	49
Cash, cash equivalents and bank overdrafts as at 31 December		**108,992**	**206,439**
Bank overdrafts as at 1 January	4.14	(6,082)	(13,489)
Bank overdrafts as at 31 December	4.14	(5,963)	(6,082)
Cash and cash equivalents as at 31 December		**114,956**	**212,520**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 2019 AND 2018 FINANCIAL YEARS

	Attributable to owners of the parent		
EUR thousand	**Issued capital**	**Capital reserves**	**Retained earnings**
As at 1 January 2018	**120**	**250**	**25,669**
Profit or loss for the period	-	-	75,323
Other comprehensive income, after tax	-	-	-
Total comprehensive income for the period	**-**	**-**	**75,323**
Issue of shares	3,840	103,680	-
Transaction costs	-	(3,140)	-
Acquisition of subsidiary with non-controlling interests	-	-	-
Transactions with non-controlling interests without change of control	-	-	-
Reclassifications	49,880	-	-
As at 31 December 2018	**53,840**	**100,790**	**100,992**
As at 1 January 2019	**53,840**	**100,790**	**100,992**
Profit or loss for the period	-	-	77,196
Other comprehensive income, after tax	-	-	-
Total comprehensive income for the period	**-**	**-**	**77,196**
Issue of shares	-	-	-
Transaction costs	-	-	-
Call/put options of non-controlling interests	-	(8,036)	-
Acquisition of subsidiary with non-controlling interests	-	-	-
Transactions with non-controlling interests without change of control	-	-	2,336
Dividends	-	-	(41,457)
Reclassifications	-	-	-
As at 31 December 2019	**53,840**	**92,754**	**139,067**

Attributable to owners of the parent				
Other reserves	Contributions in kind not yet registered	Total	Non-controlling interests	Total equity
(2,234)	**49,880**	**73,685**	**-**	**73,685**
-	-	75,323	(97)	75,226
(939)	-	(939)	-	(939)
(939)	**-**	**74,383**	**(97)**	**74,287**
-	-	107,520	-	107,520
-	-	(3,140)	-	(3,140)
-	-	-	3,732	3,732
-	-	-	-	-
-	(49,880)	-	-	-
(3,173)	**-**	**252,449**	**3,636**	**256,085**
(3,173)	**-**	**252,449**	**3,636**	**256,085**
-	-	77,196	616	77,811
(3,839)	-	(3,839)	-	(3,839)
(3,839)	**-**	**73,357**	**616**	**73,972**
-	-	-	-	-
-	-	-	-	-
-	-	(8,036)	-	(8,036)
-	-	-	3,181	3,181
-	-	2,336	(1,591)	745
-	-	(41,457)	-	(41,457)
-	-	-	-	-
(7,012)	**-**	**278,649**	**5,841**	**284,490**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CONSOLIDATED NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DERMAPHARM HOLDING SE

1. Corporate information

Dermapharm Holding SE (hereinafter also the "Company") together with its consolidated subsidiaries (hereinafter referred to as "Dermapharm" or the "Group") is a leading manufacturer of off-patent branded pharmaceuticals for selected therapeutic areas, over-the-counter drugs, non-prescription natural remedies, medical devices, herbal extracts as well as parallel imports of originator preparations, both in Germany and with a growing international presence.

The Company has its registered office at Lil-Dagover-Ring 7, Grünwald, Germany, and is entered in the commercial register under number HRB 234575.

The Company is the holding company of the Dermapharm Group, whose subsidiaries operate primarily in Germany. Dermapharm also has subsidiaries in Austria, Switzerland, Italy, Spain, the United States, Japan and the United Kingdom as well as in eastern Europe (Croatia and Poland), among other countries. The Company's domestic and international subsidiaries concentrate on the development, licensing, manufacture and sale of products using off-patent active pharmaceutical ingredients in the healthcare sector, and in particular in the pharmaceutical industry. Its core products are branded generics, OTC products, non-prescription healthcare products, herbal extracts and parallel-imported originator pharmaceuticals.

Dermapharm's shares are listed on the Regulated Market and the Regulated Market sub-segment (Prime Standard) of the Frankfurt Stock Exchange under German Securities Code (WKN) A2GS5D, International Securities Identification Number (ISIN) DE000A2GS5D8 and ticker symbol DMP. Trading opened on 9 February 2018.

These consolidated financial statements as at 31 December 2019 and the combined Group management report for financial year 2019 were approved for publication and submission to the Supervisory Board by the Board of Management on 6 April 2020.

2. Significant accounting policies and changes

2.1 Basis of preparation

Dermapharm's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and the Interpretations of the IFRS Interpretations Committee (IFRIC), as adopted by the European Union (EU), and the supplemental provisions in accordance with § 315e (3) HGB in conjunction with § 315e (1) HGB applicable under German commercial and stock corporation law. All mandatory standards and interpretations have been applied. IFRSs not yet entered into force have not been applied.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities, which are measured at fair value in accordance with the requirements of IFRSs.

To improve the clarity of presentation, various items have been aggregated in the consolidated statement of financial position and consolidated statement of comprehensive income. These items are shown separately and explained in the notes to the consolidated financial statements.

The consolidated statement of comprehensive income is prepared based on the nature of expense method.

As a rule, Dermapharm classifies assets as current if they are expected to be recovered within twelve months from the reporting date. Liabilities are classified as non-current if the Company has the right to defer settlement beyond one year. Deferred tax assets and liabilities are classified as non-current assets or liabilities in accordance with IAS 1.

The financial statements are presented in EUR (€). Unless otherwise indicated, amounts are shown in thousands of euros (EUR '000). Due to the rounding of figures, it is possible that individual items and percentages do not add up to the totals indicated.

The financial year corresponds to the calendar year. The separate financial statements of the companies included in the scope of consolidation have the same reporting date as the consolidated financial statements.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the Board of Management to exercise its judgement in the process of applying Dermapharm's accounting policies. Areas involving a more significant degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The Board of Management prepared the consolidated financial statements on a going concern basis.

2.2 Changes in accounting policies

Subject to the changes described in note 2.4, the same accounting policies were applied in these consolidated financial statements as in the consolidated financial statements for financial year 2018.

2.3 Published Standards and Interpretations that are not yet mandatory

Standard / Interpretation	First-time application	Endorsed by the EU	Name
DIV	1 January 2020	Endorsed	Amendments to IAS 1 and IAS 8: Definition of Materiality
Conceptual Framework	1 January 2020	Endorsed	Amendments to References to the Conceptual Framework in IFRS Standards
DIV	1 January 2020	Endorsed	Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
IFRS 17	1 January 2021	Pending	Insurance Contracts
IFRS 3	1 January 2020	Pending	Amendments to IFRS 3: Definition of a Business
IAS 1	1 January 2022	Pending	Classification of Liabilities as Current or Non-current

Dermapharm intends to implement these standards once they enter into force and become applicable in the EU. The above amended standards and interpretations are not expected to have any material effect on the consolidated financial statements.

2.4 Standards and Interpretations applicable for the first time during the year under review

Dermapharm applied IFRS 16 "Leases" for the first time as at 1 January 2019. Other pronouncements issued by the IASB that took effect for the first time in financial year 2019 did not have any material effect on the consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB published IFRS 16 "Leases". IFRS 16 replaces the existing guidance on lease accounting, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease" and eliminates the previous classification of leases as either operating or finance leases at the lessee. Dermapharm is only affected by IFRS 16 as a lessee.

In accordance with IFRS 16, a right-of-use asset and a lease liability must generally be recognised in the statement of financial position for all leases. In the Group, the lease liability is measured in the amount of the outstanding lease payments, which are discounted using the incremental borrowing rate. The right-of-use asset is measured in the amount of the lease liability plus any initial direct costs. The right-of-use asset is depreciated over the term of the lease. The lease liability is adjusted using the effective

interest method, taking the lease payments into account. There are practical expedients for short-term leases and leases of low-value assets. The Group exercises these options and as such does not recognise right-of-use assets or liabilities for these types of leases. The lease payments are expensed on a straight-line basis over the lease term in the income statement.

The Group has applied IFRS 16 since 1 January 2019. In accordance with the transition provisions, it uses the modified retrospective method and thus does not restate the prior-year figures. As at 1 January 2019, the Group applied the practical expedient under IFRS 16.C3 and did not reassess whether a contract is, or contains, a lease. Instead, the standard was applied only to contracts that had previously been identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Under this method, the lease liability to be recognised at the transition date is measured at the present value of the outstanding lease payments. The carrying amounts of leased assets previously recognised in accordance with IAS 17 were reclassified in the same amount as right-of-use assets pursuant to IFRS 16. The cash value calculation is based on incremental borrowing rates as at 1 January 2019. The weighted average interest rate was 1.6 %.

In accordance with the practical expedient under IFRS 16, the corresponding right-of-use assets are generally recognised in the amount of the lease liability. Right-of-use assets of EUR 10,566 thousand were recognised as at 1 January 2019. The right-of-use assets are presented in the statement of financial position within the same line items as those within which the corresponding underlying assets would be presented if they were owned by the Group. As at the reporting date, the right-of-use assets were thus reported as property, plant and equipment under non-current assets. As at 1 January 2019, lease liabilities of EUR 10,566 thousand were recognised under non-current and current financial liabilities.

The table below shows the reconciliation from obligations under operating leases as at 31 December 2018 to the carrying amounts of lease liabilities in the opening statement of financial position as at 1 January 2019:

EUR thousand	**1 January 2019**
Obligations from operating leases as at 31 December 2018	13,601
Short-term leases	(3)
Non-lease components	(664)
Gross obligations from operating leases as at 1 January 2019	**12,934**
Discounting	(2,720)
Lease liabilities as at 1 January 2019	**10,214**
Present value of finance lease liabilities as at 31 December 2018	353
Carrying amount of lease liabilities due to initial application of IFRS 16 as at 1 January 2019	**10,566**

2.5 Consolidation principles and group of consolidated companies

Consolidation principles

Dermapharm Holding SE is the parent company of the Group. Dermapharm's business is conducted by Dermapharm AG and its subsidiaries. The consolidated financial statements include all material companies as defined in IFRS 10 whose financial and business policies can be controlled by the Company, either directly or indirectly. Control exists if Dermapharm or its subsidiaries have rights to variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Dermapharm or the respective subsidiary. They are deconsolidated from the date that control ceases.

As the parent company, Themis Beteiligungs-Aktiengesellschaft, Grünwald, prepares the consolidated financial statements for the largest group of companies. As the parent company, Dermapharm Holding SE, Grünwald, prepares the consolidated financial statements for the smallest group of companies in accordance with IFRSs, as adopted by the EU. The consolidated financial statements of Themis Beteiligungs-Aktiengesellschaft as at 31 December 2019 and the consolidated financial statements of Dermapharm Holding SE as at 31 December 2019 are published in the Federal Gazette (Bundesanzeiger).

Associates are companies over which Dermapharm is able to exercise significant influence and which are not subsidiaries or joint ventures. Dermapharm is generally assumed to exercise significant influence if it directly or indirectly holds between 20 % and 50 % of voting rights in a company. Such equity investments are included in the consolidated financial statements using the equity method.

Subsidiaries, whose influence, both individually and as a whole, on Dermapharm's financial position, financial performance and cash flows is immaterial due to the limited scope of their business activities, are not consolidated or accounted for using the equity method, but rather at amortised cost.

Newly acquired subsidiaries are consolidated in accordance with the acquisition method. The assets, liabilities and contingent liabilities identified in the course of a business combination are initially consolidated at their fair value as at the acquisition date. The excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of an acquiree is recognised as goodwill. If the acquisition costs are lower than the fair value of the net assets, the difference is recognised directly in the income statement. Where necessary, amounts reported by subsidiaries have been adjusted to conform to Dermapharm's accounting policies. Transaction costs are expensed as they are incurred.

Intercompany receivables and liabilities are netted. If exchange rate effects result in netting differences, these are generally recognised through profit or loss. Intercompany revenue and income are eliminated against the relevant expenses as part of the consolidation of expenses and income. Intercompany profits not yet realised are also eliminated through profit or loss, as well as intercompany investment income. Effects on income taxes in the income statement arising from consolidation are accounted for in accordance with IAS 12 by recognising deferred taxes.

Group of consolidated companies

The table below shows the composition of the Group as at 31 December 2019:

	31 December 2019		31 December 2018	
Company name, registered office	**Interest held directly by parent**	**Interest held by subsidiary**	**Interest held directly by parent**	**Interest held by subsidiary**
Fully consolidated subsidiaries				
Dermapharm AG, Grünwald	100 %	-	100 %	-
mibe GmbH Arzneimittel, Brehna	-	100 %	-	100 %
mibe Vertrieb GmbH, Grünwald	-	100 %	-	100 %
Anton Hübner GmbH & Co. KG, Ehrenkirchen	-	100 %	-	100 %
Hübner Naturarzneimittel GmbH, Ehrenkirchen	-	100 %	-	100 %
Bio-Diät-Berlin GmbH, Berlin	-	100 %	-	100 %
Dermapharm GmbH, Vienna, Austria	-	100 %	-	100 %
Dermapharm AG, Hünenberg, Switzerland	-	100 %	-	100 %
Sun-Farm Sp. z o.o., Lomianki, Poland	-	100 %	-	100 %
Farmal d.d., Ludbreg, Croatia	-	-	-	100 %
Farmal BH d.o.o, Sarajevo, Bosnia and Herzegovina	-	100 %	-	100 %
mibe Pharmaceuticals d.o.o, Zagreb, Croatia	-	100 %	-	100 %
acis Arzneimittel GmbH, Grünwald	-	100 %	-	100 %
axicorp GmbH, Friedrichsdorf	-	100 %	-	100 %
axicorp Pharma GmbH, Friedrichsdorf	-	100 %	-	100 %
Podolux GmbH, Friedrichsdorf	-	-	-	100 %
axicorp Pharma B.V., Amsterdam, Netherlands	-	100 %	-	100 %
axicorp ApS, Hellerup, Denmark	-	100 %	-	100 %
remedix GmbH, Friedrichsdorf	-	50.1 %	-	100 %
mibe Logistik & Service GmbH & Co. KG, Brehna	-	100 %	-	100 %
Kräuter Kühne GmbH, Berlin	-	100 %	-	100 %
Melasan GmbH, Eugendorf, Austria	-	100 %	-	100 %
mibeTec GmbH, Brehna	-	100 %	-	100 %
mibeTec US, Inc., Austin, USA	-	100 %	-	-
Trommsdorff GmbH & Co. KG, Alsdorf	-	100 %	-	100 %
Cl. Lageman GmbH, Alsdorf	-	100 %	-	100 %
Strathmann GmbH & Co. KG, Hamburg	-	100 %	-	100 %
Biokirch GmbH, Seevetal	-	100 %	-	100 %
Strathmann Service GmbH, Hamburg	-	100 %	-	100 %
BLBR GmbH, Grünwald	-	50.98 %	-	50.98 %
mibe pharma UK Ltd., London, UK	-	100 %	-	100 %
mibe pharma Italia Srl., Segrate, Italy	-	100 %	-	100 %
Euromed Botanicals S.L., Barcelona, Spain	-	100 %	-	-
Euromed S.A., Barcelona, Spain	-	100 %	-	-
Euromed USA Inc., Bridgeville, USA	-	100 %	-	-
Fitvia GmbH, Wiesbaden	-	70 %	-	-
Bellavia GmbH, Wiesbaden	-	100 %	-	-

Company name, registered office	31 December 2019 Interest held directly by parent	31 December 2019 Interest held by subsidiary	31 December 2018 Interest held directly by parent	31 December 2018 Interest held by subsidiary
Non-consolidated companies				
Anton Hübner Verwaltungsgesellschaft mbH, Ehrenkirchen	-	100 %	-	100 %
Tiroler Nussöl Sonnenkosmetik GmbH, Kitzbühel, Austria	-	100 %	-	100 %
mibe Ukraine LLC., Kiev, Ukraine	-	100 %	-	100 %
mibeTec Japan K.K., Tokyo, Japan	-	100 %	-	-
mibe pharma España S.L., Barcelona, Spain	-	100 %	-	-
Associates				
Hasan Dermapharm Co., Ltd., Binh Duong Province, Vietnam	-	30 %	-	30 %
Gynial GmbH, Vienna, Austria	-	25.1 %	-	25.1 %
Gynial AG, Hünenberg, Switzerland	-	40 %	-	40 %
FYTA Company B.V., Waalwijk, Netherlands	-	20 %	-	-
FYTA Tech B.V., Waalwijk, Netherlands	-	20 %	-	-
FYTA Company GmbH, Monheim am Rhein	-	20 %	-	-
FYTA Vermögensverwaltung GmbH, Monheim am Rhein	-	20 %	-	-
Other equity investments				
Hasan Dermapharm JV Co., Ltd., Binh Duong Province, Vietnam	-	5 %	-	5 %

Changes to the group of consolidated companies and associates

Euromed

With effect from 3 January 2019, Dermapharm AG acquired all shares in the Spanish company Euromed Botanicals S.L. and its subsidiaries Euromed S.A. (each having their registered office in Barcelona, Spain) and Euromed USA Inc., with its registered office in Bridgeville, United States (jointly referred to as "Euromed"). The companies produce herbal extracts and natural active ingredients which are needed as precursors in the manufacturing of phytopharmaceuticals (herbal pharmaceuticals), nutraceuticals (functional foods) and cosmetics products. For additional details about this acquisition, please see note 2.7.

FYTA

With effect from 4 March 2019, Dermapharm AG acquired 20 % of shares in each of FYTA Company B.V. and FYTA Tech B.V. (both domiciled in Waalwijk, Netherlands), as well as FYTA Company GmbH and FYTA Vermögensverwaltung GmbH (each domiciled in Monheim, Germany). The FYTA group specialises in the production of medicinal cannabis for pharmaceutical applications. The companies were included as associates in the consolidated financial statements for the first time as at 31 March 2019. 49.9 % of the shares in remedix GmbH were transferred to UWF Beteiligungsgesellschaft mbH in the context of this acquisition. For additional details about this acquisition, please see note 2.8.

Fitvia

With effect from 6 June 2019, Dermapharm AG acquired a 70 % majority stake in Fitvia GmbH and its wholly owned subsidiary Bellavia GmbH (each having their registered office in Wiesbaden and jointly referred to as "Fitvia"). The companies sell tea, food, food supplements, snacks, muesli and cosmetics using a marketing concept based on social media and influencers. For additional details about this acquisition, please see note 2.7.

mibe pharma España

On 9 October 2019, mibe pharma España was formed with its registered office in Barcelona, Spain. The company has not yet been consolidated as at 31 December 2019 because it has not yet commenced operations.

mibeTec Japan

On 29 October 2019, mibeTec Japan K.K. was formed with its registered office in Tokyo, Japan. The company has not yet been consolidated as at 31 December 2019 because it has not yet commenced operations.

Podolux

On 1 January 2019, Podolux GmbH merged with axicorp GmbH (each having their registered office in Friedrichsdorf).

Farmal

On 8 November 2019, Farmal d.d., Ludbreg, Croatia, merged with mibe Pharmaceuticals d.o.o., Zagreb, Croatia.

2.6 Currency translation

Dermapharm's consolidated financial statements are presented in euros (EUR).

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. In subsequent periods, financial assets and liabilities denominated in foreign currencies are translated at spot rates. The resulting exchange rate gains and losses are recognised through profit or loss under net foreign exchange gains and losses and reported separately.

The assets and liabilities of consolidated foreign companies whose functional currency is not the euro are translated at the exchange rates applicable as at the end of the period. Equity items are translated at historical rates, and items of the statement of comprehensive income are translated at average exchange rates over the relevant periods. Currency translation differences in the statement of financial position and statement of comprehensive income are recognised outside profit or loss in equity.

The Group's material exchange rates are as follows (equivalent value for EUR 1):

Country	Currency	Average rate		Closing rate	
	1 EUR =	2019	2018	31 December 2019	31 December 2018
Switzerland	CHF	1.1130	1.1553	1.0877	1.1269
Croatia	HRK	7.4277	7.4237	7.4612	7.4332
Poland	PLN	4.3004	4.2633	4.2604	4.3069
Vietnam	VDN	26,102.1600	27,271.2915	26,001.5000	26,561.9000
United Kingdom	GBP	0.8775	0.8851	0.8539	0.9017
USA	USD	1.1285	-	1.1200	-

2.7 Business combinations

During the period from 1 January 2019 to 31 December 2019, the Group concluded the following business combinations:

CFP Packaging

With effect from 1 January 2019, Dermapharm AG entered into an agreement to acquire material assets and ensure continuing employment for 16 employees from CFP Packaging GmbH in Wiedemar with the seller, Attorney Axel Roth, in his function as insolvency administrator for the company.

The company was active in contract packaging and filling in the food supplements and cosmetics segments, and traded in flexible packaging materials. Essentially, by acquiring the company's assets and taking on its staff, Dermapharm intends to gain access to the machinery and expertise in the field of special packaging for powder and liquid sticks as well as access to various customers based on long-term supply agreements still in force. The transfer of the assets was subject to conditions precedent, which were satisfied in early 2019. The transaction constituted a business combination as defined under IFRS 3. Taking into consideration the agreed purchase price adjustment clauses and the repayment of EUR 5 thousand in debt for September 2018, the purchase price for the material assets of CFP Packaging GmbH amounted to EUR 782 thousand.

The company's assets and employees were integrated with mibe GmbH Arzneimittel and are thus allocated to the "Branded pharmaceuticals and other healthcare products" segment.

The fair values of the assets and liabilities (in accordance with IFRS 3) were as follows at the acquisition date, 1 January 2019:

Identified assets and liabilities	**Fair value**
Property, plant and equipment	989
of which identified in purchase price allocation	*235*
Inventories	27
Deferred tax liabilities	(64)
Fair value of acquired assets	952
Negative goodwill	(171)

The identified fair values of assets and liabilities in the amount of EUR 952 thousand exceed the consideration transferred for the material assets by EUR 171 thousand (negative goodwill). This amount is recognised in other operating income. The negative goodwill arose because it was possible to acquire the assets of the insolvent CFP Packaging GmbH as a bargain purchase ("lucky buy").

The acquired assets are primarily machinery for which a useful life of 10 years was assumed.

Euromed

With effect from 3 January 2019, Dermapharm AG entered into a purchase agreement with Arbelan S.à.r.l. (Luxembourg), a subsidiary of the US private equity fund The Riverside Company (seller) to acquire all shares of Spanish company Euromed Botanicals S.L. and its subsidiaries Euromed S.A. (each having their registered office in Barcelona, Spain) and Euromed USA Inc., with its registered office in Bridgeville, United States (jointly referred to as "Euromed").

Euromed was established in 1971 and is a leading producer of herbal extracts and natural active ingredients which are needed as precursors in the manufacturing of phytopharmaceuticals (herbal pharmaceuticals), nutraceuticals (functional foods) and cosmetics products. At present, Euromed operates two state-of-the-art production facilities in Spain near Barcelona and Murcia with capacities for further growth, as well as a drying plant in Florida, USA. Dermapharm allocated the company to the newly formed "Herbal extracts" segment, which perfectly complements the Group's existing portfolio.

The transaction constituted a business combination as defined under IFRS 3. As a practical expedient, 1 January 2019 was selected as the date to include the company in the consolidated financial statements for the first time. Factoring in the negotiated purchase price adjustment clauses, the purchase price for all shares of Euromed amounted to EUR 266,056 thousand. This amount includes acquiring a EUR 29,096 thousand loan receivable against the company from the previous owner, and EUR 3,225 thousand in interest accruing on the outstanding purchase price for the period between the reporting date (30 September 2018) and the closing date (3 January 2019). The purchase agreement also includes a EUR 4,000 thousand holdback which became due on 3 April 2020.

The fair values of the assets and liabilities (in accordance with IFRS 3) were as follows at the acquisition date, 1 January 2019:

Identified assets and liabilities	Fair value
Intangible assets	112,577
of which identified in purchase price allocation	*112,236*
Property, plant and equipment	23,318
of which identified in purchase price allocation	*3,970*
Other non-current financial assets	939
of which identified in purchase price allocation	*939*
Inventories	38,492
of which identified in purchase price allocation	*3,631*
Deferred tax assets	527
of which identified in purchase price allocation	*202*
Trade receivables	6,364
Other current assets	1,351
Cash and cash equivalents	8,435
Trade payables	(3,526)
Other liabilities	(8,393)
Deferred tax liabilities	(31,399)
of which identified in purchase price allocation	*(30,396)*
Fair value of net assets acquired (100 %)	148,686
Recognised goodwill	117,371

Acquired gross contractual amounts receivable sum up to EUR 6,364 thousand, none of which were deemed uncollectable as at the acquisition date. The gross amount corresponds to the fair value because the remaining term of the receivables is less than one year.

Comparing the consideration transferred for the interests with the identified fair value of the assets and liabilities (EUR 148,686 thousand) resulted in goodwill of EUR 117,371 thousand. Factors giving rise to this goodwill relate to expected synergies from the combined business activities and other intangible assets that cannot be reported separately, such as the combined workforce.

The assets measured at fair value for the first time in connection with the purchase price allocation and the key assumptions for the valuation were as follows:

Identified assets and liabilities at the reporting date	Identified hidden reserves (EUR thousand)	Useful life	Cost of capital
Customer relationship – Madaus	24,227	15 years	7.22 %
Customer relationship – other	68,503	15 years	7.22 %
Order backlog – Madaus	830	1 year	4.99 %
Order backlog – other	7,042	1 year	4.99 %
Trademark – Euromed	5,436	15 years	9.22 %
Product trademarks	939	15 years	9.22 %
Quality seal "PhytoProof"	3,135	15 years	9.22 %
Technology	2,124	15 years	7.22 %
Murcia purchase option	939	Indefinite	n/a
Land	1,619	Indefinite	n/a
Buildings	(805)	23 years	n/a
Machinery	3,156	8 years	n/a
Inventories	3,631	0.5 years	n/a

Euromed contributed EUR 72,269 thousand to consolidated revenue for the period from 1 January 2019 to 31 December 2019; the EBITDA contribution amounted to EUR 15,726 thousand over this period.

Fitvia

With effect from 6 June 2019, Dermapharm AG entered into an agreement with Excelling Ventures GmbH, Lion's Den Ventures GmbH and Ro Perun 88 Ventures GmbH (sellers) to acquire a 70 % majority stake in Fitvia GmbH, Wiesbaden, and its wholly owned subsidiary Bellavia GmbH (jointly referred to as "Fitvia"). The antitrust authorities granted their approval on 5 July 2019.

Fitvia was formed in 2014 and, in addition to tea, sells food, food supplements, snacks, muesli and cosmetics. Its products are aimed at a clearly defined female target group aged between 18 and 39. These consumers constitute one of the largest groups of social media users worldwide. Accordingly, the products are promoted and marketed exclusively via social media and well-known influencers on platforms such as Instagram. By systematically expanding its product range and employing innovative influencer marketing solutions, Fitvia has become an established healthy lifestyle brand in Europe. Fitvia currently sells its products to more than half a million customers in several European countries including Germany, Austria, Italy, France, Spain and Poland. The company was allocated to Dermapharm's "Branded pharmaceuticals and other healthcare products" segment.

The transaction constituted a business combination as defined under IFRS 3. As a practical expedient, 1 July 2019 was selected as the date to include the company in the consolidated financial statements for the first time. The preliminary purchase price for 70 % of the shares in Fitvia amounted to EUR 26,320 thousand. The final purchase price will be calculated on the basis of Fitvia's EBITDA as at 31 December 2019. On 31 December 2019, the fair value of the earn out clause was set at EUR 6,022 thousand on the basis of Fitvia's projections for financial year 2019. Under the purchase agreement, the earn-out clause can amount to at most EUR 6,580 thousand.

The purchase agreement includes provisions on options for the remaining 30 % of the shares in Fitvia. These provisions include a call option and a put option. The exercise price for both options is based on the average EBITDA for the years 2023 and 2024 as reported in Fitvia's adopted annual financial statements. Dermapharm may exercise the call option up to six weeks after the annual financial statements as at 31 December 2024 are adopted. Excelling Ventures GmbH may exercise the put option within six weeks of the expiry of the acceptance period for the call option, but only if the call option has not been exercised. The effect of the call option (EUR -8,428 thousand) and the effect of the put option (EUR +13,759 thousand) were taken into account when calculating the preliminary purchase price (EUR 37,673 thousand) for the 70 % interest. For further information on the accounting treatment of the put option, please refer to note 2.16.

The fair values of the assets and liabilities (in accordance with IFRS 3) were as follows at the acquisition date, 1 July 2019:

Identified assets and liabilities	Fair value
Intangible assets	9,407
of which identified in purchase price allocation	*9,403*
Property, plant and equipment	375
Inventories	4,090
Trade receivables	915
Other current assets	692
Cash and cash equivalents	2,613
Prepaid expenses	68
Provisions	(2,415)
Trade payables	(1,174)
Other liabilities	(986)
Deferred tax liabilities	(2,982)
of which identified in purchase price allocation	*(2,982)*
Fair value of net assets acquired (100 %)	10,602
Non-controlling interest (30 %)	(3,181)
Fair value of net assets acquired (70 %)	7,422
Recognised goodwill	30,251

Acquired gross contractual amounts receivable amount to EUR 915 thousand, none of which were deemed uncollectable as at the acquisition date. The gross amount corresponds to the fair value because the remaining term of the receivables is less than one year.

Comparing the consideration transferred for the interests with the identified fair value of the prorated assets and liabilities (EUR 7,422 thousand) resulted in goodwill of EUR 30,251 thousand. Factors giving rise to this goodwill relate to expected synergies from the combined business activities.

The asset measured at fair value for the first time in connection with the purchase price allocation and the key assumptions for the valuation were as follows:

Identified assets and liabilities at the reporting date	Identified hidden reserves (EUR thousand)	Useful life	Cost of capital
Trademark – Fitvia	9,403	4 years	9.91 %

Fitvia contributed EUR 18,013 thousand to consolidated revenue for the period from 1 July 2019 to 31 December 2019; the EBITDA contribution amounted to EUR 2,175 thousand over this period.

2.8 Acquisition of investments accounted for using the equity method

FYTA

With effect from 4 March 2019, Dermapharm AG entered into an agreement with HS Beteiligungsgesellschaft mbH, UR Investment GmbH and WR Investment GmbH (sellers) to acquire 20 % of shares in FYTA Company B.V. and FYTA Tech B.V. (each having their registered office in Waalwijk, Netherlands), as well as FYTA Company GmbH and FYTA Vermögensverwaltung GmbH (each having their registered office in Monheim, Germany), hereinafter jointly "FYTA". The transaction was closed on 11 March 2019.

FYTA specialises in the production of medicinal cannabis for pharmaceutical applications. The company operates its own state-of-the-art indoor production facility in Waalwijk, at which up to 25 tonnes of medicinal cannabis can be produced per year. The transaction also includes the assignment by Dermapharm of 49.9 % of the shares in remedix GmbH (domiciled in Friedrichsdorf, Germany) to UWF Beteiligungsgesellschaft mbH (domiciled in Monheim, Germany). As a re-importer in the pharmaceuticals sector, remedix GmbH specialises in EU anaesthetics and is licensed by the Federal Opium Agency to trade in anaesthetics. In future, remedix GmbH will act as a joint platform between Dermapharm and FYTA for importing medicinal cannabis products to Germany and marketing them. The equity investment was allocated to Dermapharm's new "Herbal extracts" segment.

As a practical expedient, FYTA was consolidated as "investments accounted for using the equity method" for the first time on 31 March 2019. The Group calculated the difference between the cost of the investment and Dermapharm's share of the net fair value of the identifiable assets and liabilities of FYTA in accordance with IAS 28 in conjunction with IFRS 3, as required on acquisition of the investment. Factoring in the negotiated purchase price adjustment clauses, the preliminary purchase price for 20 % of the shares in FYTA amounted to EUR 60,750 thousand. The final purchase price will be calculated on the basis of the average EBITDA for the years 2019 to 2021. An additional payment will fall due should the final purchase price exceed the preliminary purchase price. If the final purchase price is less than the preliminary purchase price, a compensation will fall due, which the seller may tender in the form of a cash payment, the transfer of additional shares or a combination of cash and additional shares.

The net fair values of the assets and liabilities (in accordance with IAS 28) were as follows at the acquisition date, 31 March 2019:

Identified assets and liabilities	Fair value
Intangible assets	104,376
of which identified in purchase price allocation	*101,682*
Property, plant and equipment	10,964
Inventories	921
Trade receivables	26
Other current assets	446
Cash and cash equivalents	957
Deferred tax assets	642
Liabilities	(20,092)
Deferred tax liabilities	(21,370)
of which identified in purchase price allocation	*(21,370)*
Fair value of net assets acquired (100 %)	76,871
Majority share (80 %)	(61,497)
Fair value of net assets acquired (20 %)	15,374
Goodwill	45,376

Comparing the consideration transferred for the interests with the identified fair value of the prorated assets and liabilities (EUR 15,374 thousand) resulted in goodwill of EUR 45,376 thousand. Factors giving rise to this goodwill relate to expected synergies from the combined business activities and other intangible assets that cannot be reported separately.

The following assets were measured at their fair value for the first time during the purchase price allocation. The key measurement assumptions are as follows:

Identified assets and liabilities at the reporting date	Identified hidden reserves (EUR thousand)	Useful life	Cost of capital
Technology	1,324	3 years	13.97 %
Cultivation & marketing license	19,525	6 years	14.17 %

2.9 Intangible assets

Intangible assets are measured using the cost model in accordance with IAS 38.

Amortisation of intangible fixed assets is based primarily on the following useful lives:

Intangible assets	Years
Software, licenses, patents and similar rights	3 - 20
Capitalised development costs (amortisation from date of authorisation)	15
Goodwill	Indefinite useful life

Software, licenses, patents and similar rights

Software, licenses, patents and similar rights have a finite useful life and are carried at cost less cumulative amortisation and impairment.

Capitalised development costs

Capitalised development costs consist primarily of projects for the development of new pharmaceutical products as well as authorisations obtained on the basis of the Company's own development activities. Costs that are incurred from the expansion of these authorisations to new countries are also capitalised.

Once a project has received approval by the Board of Management, the costs are capitalised during the project phase in accordance with the recognition criteria set out in IAS 38. Those costs directly attributable to the development project are used, and include personnel costs for members of staff involved in the development process, an appropriate part of the corresponding directly attributable overhead costs and costs for external resources. Once the development stage of the project has been completed and the project has been approved by the authorising authorities, the asset is economically viable and amortisation commences.

Other development costs that do not meet these recognition criteria are expensed as incurred. Development costs previously recognised as an expense are not capitalised in subsequent periods.

Since the Group does not conduct any fundamental pharmaceutical research, no research costs are incurred.

Intangible assets acquired in the context of a business combination

The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Goodwill

Goodwill represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of an acquiree. If the consideration is less (negative goodwill), it is recognised in profit or loss.

2.10 Property, plant and equipment

All items of property, plant and equipment are measured at cost less cumulative depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of internally generated assets includes the cost of materials and direct labour costs, plus any other costs directly attributable to bringing the assets to a working condition for their intended use and the costs of dismantling and removing the items.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment; these are recognised through profit or loss on a net basis within other operating income or other operating expenses.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to Dermapharm and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of an item of property, plant and equipment. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Depreciation is based primarily on the following estimated useful lives:

Property, plant and equipment	Years
Buildings, including buildings on third-party land	10 - 60
Technical equipment and machinery	5 - 20
Other equipment, operating and office equipment	3 - 23
Prepayments	n/a

2.11 Impairments of non-financial assets

Intangible assets which are not subject to amortisation are tested annually for impairment. Property, plant and equipment and other intangible assets already in use are depreciated and amortised, as well as tested for impairment if there are indications that the assets may have become impaired.

In order to determine whether an asset is impaired, the recoverable amount (the higher of fair value less costs to sell and the value in use) of the respective asset is compared against its carrying amount. If the recoverable amount is lower than the carrying amount, the amount of the difference is recognised as an impairment loss. To the extent possible, impairment tests are carried out at the level of the individual asset, otherwise at the level of the cash-generating unit. Goodwill is only tested for impairment at the level of the cash-generating unit. If the reasons for recognising an impairment cease to apply, the impairment is reversed to no higher than the carrying amount that would have been recognised had no impairment originally been recognised (amortised cost). Impairments on goodwill may not be reversed.

The impairment test is conducted using the discounted cash flow (DCF) model. Goodwill is tested for impairment on the basis of projections made in budgets approved by the Board of Management and the Supervisory Board, while development costs are tested for impairment on the basis of project-specific budgets approved by the Board of Management. The expected cash flows are discounted using an appropriate interest rate for the relevant market.

2.12 Financial assets

Recognition and measurement

All financial assets are measured at fair value upon initial recognition. The transaction costs directly attributable to the acquisition of financial assets which will not be subsequently measured at fair value through profit or loss are included in the fair value. Additions and disposals of financial assets are recognised on the trading date, i.e., the date on which Dermapharm is obligated to buy or sell the asset.

The financial assets held by the Group consist in particular of cash, trade receivables and derivative financial assets.

Subsequent measurement

Financial assets are classified into three measurement categories set out in IFRS 9 for the purpose of subsequent measurement:

The category "at amortised cost (AC)" includes financial assets for which the cash flows comprise payments of interest and principal and are held for the purpose of collecting contractual cash flows. After initial recognition, these financial assets are carried at amortised cost using the effective interest rate method, less impairments.

The category "at fair value through other comprehensive income (FVOCI)" covers financial assets held for the purpose of collecting contractual cash flows as well as for disposal if required. These are measured at fair value. Any resulting changes in value are recognised in a separate reserve under other comprehensive income. Upon disposal, the cumulative measurement gains and losses in other comprehensive income are recognised at fair value through profit or loss.

The category "at fair value through profit or loss (FVPL)" contains those financial assets which do not fall under any different category. These are measured at fair value. Any changes in their value are recognised through profit or loss.

An entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value (FVOCI) of an investment in an equity instrument within the scope of IAS 32 that is not held for trading, whereby only income from dividends is recognised in profit or loss. Dermapharm exercises this option and classifies equity instruments in the form of equity investments in other entities at fair value through other comprehensive income. Due to its immateriality to Dermapharm's consolidated financial statements, amortised cost is used as an approximate value for fair value.

Derecognition and impairment

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to a third party.

Receivables, including associated impairment losses, are derecognised if they are deemed uncollectable.

Derivatives are derecognised at the end of the contractual obligation.

The impairment model under IFRS 9 provides for loss allowances for expected credit losses. Dermapharm applies the simplified approach for calculating expected losses on trade receivables based on customers' payment history using a provision matrix. In the provision matrix, the expected loss over the remaining term is determined on the reporting date as a fixed percentage rate depending on how long the receivables were past due.

2.13 Inventories

In accordance with IAS 2, those assets that are intended for sale in the ordinary course of business (finished goods and merchandise), that are in the process of production for sale (work in progress), or that are consumed in the production process or in the rendering of services (raw materials, consumables, and supplies) are presented under inventories. Prepayments for the acquisition of inventories are also presented under inventories.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred to acquire the inventories, production costs and other costs incurred to bring them to their existing location and condition. In the case of manufactured inventories and work in progress, cost of inventories includes direct material and production costs and an appropriate share of production overheads based on normal operating capacity. The cost of raw materials is allocated individually or based on a weighted average.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash contributions and are intended for meeting current payment obligations. They are generally measured at their nominal amounts.

2.15 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell. Property, plant and equipment classified as held for sale is not depreciated.

2.16 Financial liabilities

Recognition and measurement

Financial liabilities are measured at fair value upon initial recognition. Directly attributable transaction costs associated with the acquisition of financial liabilities which will not be subsequently measured at fair value through profit or loss are included as part of their carrying amount.

Financial liabilities give rise to a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities held by Dermapharm consist primarily of trade payables, financial liabilities and other financial liabilities not held for trading, as well as derivative financial liabilities.

Subsequent measurement

In accordance with IFRS 9, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in financial expenses in the statement of comprehensive income.

Derivative financial liabilities that are not part of an effective hedging relationship are measured at fair value through profit or loss. Gains and losses in connection with these types of financial liabilities are recognised through profit or loss.

Derecognition

A financial liability is derecognised if the corresponding obligation is settled, revoked or expired. The difference between the carrying amount of the derecognised financial obligation and the consideration obtained or to be obtained is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is both an enforceable legal right to offset the recognised amounts and an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Put options held by non-controlling interests

Put options granted to non-controlling shareholders for their shares in Group companies are recognised as a liability in the amount of the present value of the acquired exercise price. If, in an individual case, the risks and rewards incidental to ownership of the non-controlling interest have already transferred at the time the majority interest is acquired, it is assumed that the company has been acquired in full. However, if none of the risks and rewards have been transferred, the non-controlling interests continue to be reported in equity. The liability is covered by capital reserves with no effect on profit or loss ("double credit approach"). Any changes resulting from the subsequent fair value measurement of the options are reported in capital reserves with no effect on profit or loss.

2.17 Government grants

mibe GmbH Arzneimittel received government grants for the construction and extension of the production facility in Brehna, Germany. These are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs which the grants are intended to compensate. Grants are recognised in the statement of financial position under other liabilities.

At the reporting date, there were no unfulfilled conditions or contingencies attached to the recognised grants.

2.18 Provisions for employee benefits

Defined benefit pension commitments are measured using the projected unit credit method in accordance with IAS 19. Under that method, the pensions known as at the reporting date and vested benefits are factored into the calculation along with future expected increases in salaries and pensions. The calculation is based on actuarial reports and take into consideration the biometric accounting principles set out in the 2018 G Heubeck mortality tables. The discount rates used are determined based on the market yields of high-quality corporate bond portfolios.

For pension commitments financed through pension funds, the fair value of plan assets is deducted from the present value of the defined benefit obligation for pensions and other post-employment benefits to determine the net defined benefit liability.

Deviations between the assumptions made in the pension report and the actual development result in actuarial gains and losses. The resulting remeasurements and income on plan assets are recognised in other comprehensive income, which forms part of the retained earnings and is not recycled to profit or loss in subsequent periods. The current service cost is presented through profit or loss in personnel expenses, with the interest portion relating to the additions to provisions recognised in the financial result.

2.19 Other provisions

Other provisions are recognised in accordance with IAS 37 when an entity has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions with a remaining term of longer than one year are recognised at their present value.

The amount recognised as a provision represents the best estimate of the expenditure required to settle the present obligation at the reporting date.

2.20 Long-term employee benefits

Bonus schemes

For bonus payments after the end of the respective financial year for the preceding financial year, an obligation is recognised and the corresponding expenses are recognised as personnel expenses. The amount of the obligation is measured individually for each employee for whom either a contractual bonus obligation or a constructive obligation due to past practice exists.

2.21 Taxes on income and deferred taxes

Taxes on income

Current income taxes are measured for the current period at the amount in which a reimbursement from the taxation authority or a payment to the taxation authority is expected. The amount is calculated based on the tax rates and tax laws that are applicable at the reporting date in the countries in which the Group operates and generates taxable income.

Current income taxes that relate to items that are recognised directly in equity are not recognised in the income statement, but rather in equity.

Deferred taxes

Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for Group accounting purposes and the amounts recognised for tax purposes.

Deferred tax assets are recognised for unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred taxes are measured based on the tax rates on the recognition date that are applicable or expected based on the current legal situation in the individual countries. Deferred taxes that relate to items recognised in equity are presented in equity. Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off the current tax assets against current tax liabilities and these relate to income taxes levied by the same taxation authority on the same taxable entity.

The initial recognition exemption provided for in IAS 12 is applied to leases accounted for in accordance with IFRS 16 and therefore no deferred taxes are recognised.

2.22 Recognition of income and expenses

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied or services rendered, stated net of discounts, returns and value added taxes.

Revenue is recognised once the goods and merchandise have been delivered and control passes to the customer. Revenue generated from the sale of goods is generally recognised at a point in time. Discounts, customer bonuses and rebates are deducted from revenue.

The German pharmaceuticals market is highly regulated, requiring manufacturers to obtain marketing authorisations before introducing a new product for sale. The extensive regulation also affects the prices for prescription pharmaceuticals in Germany. Certain prescription pharmaceuticals, in particular those with high volumes, are subject to a reference price, which is the maximum price for which patients are reimbursed by statutory health insurance (SHI) providers. All other prescription pharmaceuticals (i.e., those without a reference price) are subject to a mandatory manufacturer rebate, normally of 7 %, as well as a price moratorium, which was extended until 2022 at the beginning of 2017. Under this moratorium, pharmaceuticals manufacturers are required to compensate SHI providers and private health insurance companies for any price increases. In addition, generics manufacturers such as Dermapharm are generally required to offer a mandatory generics rebate of 10 % on the ex-factory price of their prescription pharmaceuticals. Rebates are accounted for as deductions from revenue in the consolidated statement of comprehensive income.

Other operating income / expenses

Other operating expenses are recognised at the point at which the service is rendered, the delivery is received or at the date they are incurred. Other operating income is recognised when the economic benefits flow to the entity.

Interest income / expenses

Interest income / expenses are recognised in profit or loss using the effective interest method. Derivatives are measured at fair value. Any resulting changes in value are generally recognised in profit or loss.

2.23 Earnings per share

Basic earnings per share is calculated by dividing the consolidated net profit for the period which is attributable to the shareholders of the parent by the weighted average number of ordinary shares outstanding. IAS 33 was applied retrospectively to calculate the weighted average number of ordinary shares outstanding. At Dermapharm, diluted earnings per share is calculated in the same manner as basic earnings per share because Dermapharm has not issued any financial instruments that could potentially result in a capital increase or an increase in ordinary shares.

2.24 Leases

A lease is a contract, or part of a contract, that conveys the right to use an asset (the leased asset) for a period of time in exchange for consideration.

Until 31 December 2018, the risks and rewards incidental to ownership of a leased asset were used to determine whether economic ownership of the leased asset lies with the lessee (finance leases) or the lessor (operating leases).

In the case of an operating lease, the lease payments were expensed in the statement of comprehensive income on a straight-line basis over the term of the lease.

Assets accounted for under finance leases were recognised at the inception of the lease at the lower of the present value of the lease payments or the fair value of the underlying asset and, in subsequent periods, less any accumulated depreciation and any accumulated impairment losses. Depreciation was conducted on a straight-line basis, taking into account the residual value of the assets accordingly. The payment obligations resulting from future lease instalments were discounted and recognised as financial liabilities.

Since 1 January 2019, the Group, as a lessee, generally recognises the rights to use the underlying asset (right-of-use assets) and the liabilities associated with the payment obligations (lease liabilities) at their respective present values in the statement of financial position. The lease liabilities comprise the following lease payments:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the lease payments are discounted using the incremental borrowing rate. Dermapharm uses the incremental borrowing rate since the interest rates implicit in the leases could not be readily determined. This incremental borrowing rate is derived as a risk-adjusted interest rate to borrow over a similar term in the same currency.

Right-of-use assets are measured at cost, which comprises:

- the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- any asset retirement obligations.

Right-of-use assets are subsequently measured at cost. Right-of-use assets are depreciated on a straight-line basis over the term of the lease.

The Group exercises these options for short-term leases and leases for which the underlying asset is of low value and as such does not recognise right-of-use assets or liabilities for these types of leases.

A number of leases, in particular real estate leases, include extension and termination options. These contractual terms and conditions offer Dermapharm the utmost flexibility. When determining the terms of the leases, all relevant facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option are considered. Such options are only considered when determining the term if it is reasonably certain that they will be exercised.

2.25 Derivatives

Dermapharm uses derivatives to mitigate the risk of changes in exchange rates or interest rates. The instruments used include cross-currency and interest-rate swaps as well as options. Derivatives are initially recognised on the trade date when the Company becomes a counterparty under the contractual provisions of the instrument.

Depending on whether the market value of the derivatives is positive or negative, they are recognised under other financial assets or other financial liabilities. Dermapharm does not apply hedge accounting.

2.26 Fair value measurement

The tables below show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value:

Type	Valuation technique	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value measurement
Equity investments (n/a)	Due to the limited scope of their business activities and resulting immateriality of equity investments, the fair value of those equity investments is assumed to be equal to the carrying amount.	n/a	n/a
Interest rate swaps (level 2)	Swap models: Fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value measurement is subject to a credit/debit valuation adjustment that reflects the credit risk of Dermapharm and the counterparty, which is calculated based on credit spreads.	n/a	n/a
Cross-currency swaps (level 2)	Option pricing: Fair value is calculated as the present value of the estimated future cash flows based on the Black 76 model for foreign exchange derivatives. The fair values are determined using an option pricing model using only observable input data including the relevant reference rate curve, the forward rates as well as quoted foreign exchange spot and forward rates. The fair value measurement is subject to a credit/debit valuation adjustment that reflects the credit risk of Dermapharm and the counter-party, which is calculated based on credit spreads.	n/a	n/a
Options (level 3)	Option measurement model: The Black 76 model is used to calculate the fair value of options. The key model parameters for measuring options include the underlying, the exercise price, the expected volatility of the underlying, the risk-free interest rate and the expected remaining maturity. For the sake of simplicity, the call option on land and buildings in Murcia is measured based on an Iberian real estate investment trust since inputs are not available for the volatility of the land and building and other private commercial properties. In the case of the call and put option on the remaining shares in Fitvia GmbH, the company's results from the expanded budget are also included in the calculation as unobservable inputs.	Volatility 31 December 2019: 15.3 %	A decrease in volatility would result in a decrease of the positive fair value of the option. By contrast, an increase in volatility would result in an increase in the positive fair value of the option.

Financial instruments not measured at fair value:

Type	Valuation technique	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value measurement
Liabilities to banks and lease liabilities (level 2)	Discounted cash flows: The valuation model considers the present value of future cash flows, discounted using a risk-adjusted discount rate. The discount rate is determined using a benchmark yield curve that is consistent with the timing and the estimated riskiness of the bank loan at the closing date of the contract. The discount rate used as at the reporting date corresponds to the value of the benchmark yield curve on that date. Discount rates for future maturities correspond to the values of the term-equivalent benchmark yield curve.	n/a	n/a

3. Estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

Dermapharm makes estimates and assumptions concerning the future. These accounting estimates may deviate from actual events. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Significant judgement was necessary to decide whether the criteria pursuant to IAS 38 for capitalising development costs have been met.

Business combinations

Valuation methods, which are primarily based on estimates and assumptions, are used in connection with purchase price allocations for business combinations. The methods employed and carrying amounts identified in the course of the acquisitions of CFP Packaging, Euromed and Fitvia are presented in note 2.7.

Goodwill impairment test

The Group tests recognised goodwill for impairment at least once annually. For more detailed information on the carrying amounts of goodwill as at the reporting date and the necessary assumptions and estimates, please refer to note 4.1.

Impairment of other assets

For items of property, plant and equipment and intangible assets, the expected useful lives and associated amortisation or depreciation expenses are determined on the basis of the management's expectations and assessments. The Group assesses whether there are any indications of impairment for all non-financial assets at each reporting date.

Particularly in connection with impairment testing of approvals that are not yet in use, the growth rates applied for testing as well as the price and cost development of active pharmaceutical ingredients are based on best possible estimates. The carrying amounts of the items of property, plant and equipment and intangible assets as well as the respective amortisation, depreciation and impairment expenses are shown in the tables in notes 4.1 and 4.2.

Development costs

Development costs are capitalised based on the assessment of whether the capitalisation requirements of IAS 38 have been met. Projections are necessary to determine the future economic benefits. These are by their nature subject to estimates and may therefore deviate from actual circumstances in the future. For the carrying amounts of capitalised development costs as at the reporting date, please refer to note 4.1.

Taxation

The Group operates in various countries and is required to pay the relevant income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred tax liabilities in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain statement of financial position items in accordance with IFRS and their accounting in accordance with tax law must each be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed figures, this has a corresponding effect on current and deferred taxes and thus on Dermapharm's financial position, financial performance and cash flows for the respective period. For more detailed information on the income taxes and deferred taxes, please refer to note 4.18.

Fair value of financial assets and liabilities

Valuation models based on input parameters observable in the market are applied to determine the fair values of derivatives and other financial instruments, for which no market price is available in an active market. The cash flows, which are already fixed or calculated based on the current yield curve using forward rates, are discounted to the measurement date with the discount factors determined based on the yield curve valid on the reporting date. All carrying amounts are shown in note 7.3.

Trade receivables, cash and cash equivalents, trade payables, current liabilities to banks, current lease liabilities and other current financial liabilities generally have a remaining term of up to one year. The carrying amounts less allowances, where applicable, approximate the fair values.

Pensions and other post-employment benefits

The carrying amounts of defined benefit pension plans and other post-employment benefits are based on actuarial valuations. These include assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. For more detailed information, please refer to note 4.12.

Other provisions

The estimate of future costs is subject to many uncertainties, including legal uncertainties based on the applicable laws and regulations and with uncertainties regarding to the actual conditions in the different countries and operating locations. In particular, estimates of costs are based on previous experience in similar cases, the conclusions of expert opinions commissioned by Dermapharm, current costs and new developments that have a bearing on the costs. Any changes to these estimates could have an impact on the future profit or loss of the Group.

The expenses for recognising provisions for health insurance discounts are estimated based on the relevant underlying two-year discount agreement and information obtained from a database which tracks the historical volumes of pharmaceuticals reimbursed by each insurance company. Actual expenses for these discounts may differ from the estimate and revenue would accordingly be higher or lower. The invoicing of the discounts and hence the utilisation of provisions for discounts for health insurers is generally expected within the next twelve months. The expenses for recognising these provisions are offset against revenue.

For the carrying amounts of other provisions as at the reporting dates, please refer to note 4.13.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

Intangible assets developed as follows:

EUR thousand	Goodwill	Software, licenses, patents and similar rights	Capitalised development costs	Total
Cost				
As at 1 January 2019	**75,836**	**255,949**	**52,200**	**383,986**
Exchange differences	-	99	3	102
Additions due to business combinations	147,623	121,983	-	269,606
Additions	-	1,873	13,180	15,054
Disposals	-	(8,838)	(276)	(9,114)
Reclassifications	-	(1,549)	1,585	36
As at 31 December 2019	**223,459**	**369,518**	**66,693**	**659,671**
Amortisation and impairment				
As at 1 January 2019	**21,215**	**106,004**	**12,210**	**139,429**
Exchange differences	-	94	-	94
Additions (amortisation)	-	30,202	850	31,052
Additions (impairment)	-	554	1,377	1,931
Disposals	-	(8,173)	53	(8,119)
Reclassifications	-	(217)	224	7
As at 31 December 2019	**21,215**	**128,466**	**14,715**	**164,395**
Carrying amounts				
As at 31 December 2018	**54,622**	**149,944**	**39,990**	**244,557**
As at 31 December 2019	**202,245**	**241,053**	**51,979**	**495,276**

EUR thousand	Goodwill	Software, licenses, patents and similar rights	Capitalised development costs	Total
Cost				
As at 1 January 2018	**45,798**	**189,276**	**42,262**	**277,336**
Exchange differences	-	101	(2)	99
Additions due to business combinations	30,039	67,008	-	97,047
Additions	-	1,898	10,453	12,351
Disposals	-	(2,334)	(513)	(2,846)
Reclassifications	-	-	-	-
As at 31 December 2018	**75,836**	**255,949**	**52,200**	**383,986**
Amortisation and impairment				
As at 1 January 2018	**21,215**	**91,388**	**6,746**	**119,349**
Exchange differences	-	98	-	98
Additions (amortisation)	-	15,512	906	16,418
Additions (impairment)	-	1,340	4,872	6,212
Disposals	-	(2,333)	(315)	(2,648)
Reclassifications	-	-	-	-
As at 31 December 2018	**21,215**	**106,004**	**12,210**	**139,429**
Carrying amounts				
As at 31 December 2017	**24,583**	**97,888**	**35,516**	**157,987**
As at 31 December 2018	**54,622**	**149,944**	**39,990**	**244,557**

The assets of the acquired companies were restated in the statement of changes in fixed assets. In accordance with IFRS 3, these are now reported at their net fair values at the date of acquisition under costs as additions due to business combinations. The prior-year statement of changes in fixed assets was also restated.

Intangible assets consist primarily of purchased assets – including in particular recognised goodwill, customer relationships, orders on hand, trademarks and authorisations – and capitalised costs for current development projects and internally developed authorisations. The changes since the previous year resulted in particular from the Euromed and Fitvia acquisitions. The residual useful lives and carrying amounts of significant intangible assets resulting from these acquisitions are presented in the table below; please refer to note 2.7 for additional information on these acquisitions.

31 December 2019	Carrying amount (EUR thousand)	Residual useful life (years)	Origin
Customer relationship – Madaus	22,612	14	Euromed acquisition
Customer relationship – other	63,936	14	Euromed acquisition
Trademark – Euromed	5,074	14	Euromed acquisition
Product trademarks	876	14	Euromed acquisition
Quality seal "PhytoProof"	2,926	14	Euromed acquisition
Technology	1,982	14	Euromed acquisition
Trademark – Fitvia	8,228	3.5	Fitvia acquisition

Goodwill was recognised at a carrying amount of EUR 202,245 thousand as at the reporting date (31 December 2018: EUR 54,622 thousand). During the year under review, goodwill amounting to EUR 117,371 thousand was recognised for Euromed and EUR 30,251 thousand for Fitvia.

Amortisation of EUR 31,052 thousand in total was recognised for intangible assets (excl. impairment) during the reporting period (2018: EUR 16,418 thousand). The amortisation taken on capitalised development costs were amounted to EUR 850 thousand (2018: EUR 906 thousand). This related to the portion of capitalised development costs that had already resulted in an approval and will thus be amortised over 15 years. The total carrying amount for capitalised development costs as at 31 December 2019 was EUR 51,979 thousand (31 December 2018: EUR 39,990 thousand). Of that amount, development projects with a carrying amount of EUR 15,111 thousand (31 December 2018: EUR 10,800 thousand) are already in use after receiving authorisation. In addition, current development costs of EUR 14,357 thousand were capitalised during financial year 2019 (31 December 2018: EUR 10,366 thousand).

The useful lives of internally generated intangible assets remained unchanged in financial year 2019.

An impairment charge of EUR 1,849 thousand on capitalised development costs and authorisations was recognised in the reporting period ended 31 December 2019 (31 December 2018: EUR 6,212 thousand). The impairment charge essentially comprised the derecognition of expired authorisations (EUR 727 thousand) and impairment of development projects and authorisations (EUR 1,122 thousand).

Impairment testing for capitalised development projects and technologies which have not yet been completed

Capitalised projects in the development phase for which no authorisations have been received, and technologies acquired during the reporting year which have not yet been completed are tested annually for impairment, as they are not subject to amortisation. As at 30 September 2019, development projects and technologies which have not yet been completed (EUR 3,388 thousand) with a carrying amount totalling EUR 39,498 thousand (31 December 2018: EUR 33,906 thousand) were tested for impairment.

As part of the impairment test, the recoverable amount of the individual projects was determined by calculating the value in use, which is based on the projected cash flows of the individual development projects. The cash flow projections underlying the calculation were made for a planning period of three years and derived based on management inputs of key parameters for each project and included in an individual business plan. These key parameters include the target market share for the product based on the total market volume, the expected year of market introduction, the total life of the product, the expected EBIT margin and the estimated cost to complete based on the degree of completion as at the measurement date.

A single peer group was selected for calculating the discount rates. Differences in discount rates resulted from the respective applicable tax rates, risk premiums and terms.

Based on this data, the impairment test for the 2019 reporting year resulted in an impairment loss of EUR 467 thousand (31 December 2018: EUR 3,477 thousand) for development projects and technologies which have not yet been completed.

The results of the impairment tests are based primarily on the management assumptions described. To validate these results, the assumptions made were subjected to sensitivity analyses where the impact of a change in parameters on the carrying amounts was calculated. Modified assumptions involved the pre-tax interest rates and EBIT margins applied to the terminal value.

A 1.00 % increase in the interest rates before taxes combined with a decrease in the expected EBIT margin of 2.00 % would have resulted in an additional impairment charge of EUR 1,567 thousand (30 September 2018: EUR 6,056 thousand).

Goodwill impairment test

The Board of Management monitors and manages the Group's goodwill at the level of the various legal entities. Dermapharm defines all legal entities as cash generating units (CGUs), which are tested for impairment on a regular basis. For this reason, eight CGUs with material goodwill were subjected to impairment tests as at 30 September 2019 (30 September 2018: nine).

The recoverable amount of the individual CGUs was determined by calculating the value in use, which in turn is based on the projected cash flows of the individual legal entities. The cash flow projections underlying the value in use calculation stem from the financial plans for a period of three years as of the respective valuation date as approved by the Board of Management and the Supervisory Board (budget planning).

As the management plans indicate that not all of the CGUs had reached a sustainable state as at the measurement date, in particular with respect to revenue growth, the reconciliation to the terminal value was planned within a three-year transition period. The first year of the transition period is characterised by decreasing growth rates while EBITDA margins were kept constant. The growth rates were reduced to the sustainable revenue growth. The remaining two transition periods were already planned with terminal value

assumptions, i.e., with a growth rate of 0.1 % and constant EBITDA margins analogously to the last detailed planning year in each case. Due to discounting effects, recognising the two additional transition periods does not significantly impact the valuations. This state was extrapolated using a long-term growth rate of 0.1 %.

The respective carrying amounts and goodwill as well as the key assumptions for the calculation of values in use for each CGU were as follows. The budgeted EBITDA margins and budgeted EBITDA margin growth rates presented reflect average values over the four planning years:

30 September 2019*	mibe GmbH Arznei-mittel	Euromed Botanicals S.L.	Bio-Diät-Berlin GmbH	axicorp GmbH	Sun-Farm Sp. z o.o.	Strath-mann GmbH & Co. KG	BLBR GmbH	Tromms-dorff GmbH & Co. KG
Budgeted EBITDA margin	36.51 %	29.29 %	54.37 %	3.59 %	32.37 %	26.20 %	35.79 %	33.53 %
Budgeted EBITDA margin growth	(6.52 %)	(11.62 %)	31.67 %	(5.72 %)	6.83 %	4.83 %	22.71 %	7.25 %
Discount rate	10.32 %	8.57 %	10.48 %	10.27 %	11.16 %	8.91 %	6.64 %	9.03 %
Goodwill (EUR thousand)	1,700	117,371	7,493	12,766	1,848	2,496	2,119	25,481
Value in use (EUR thousand)	576,340	288,372	39,978	83,648	39,590	74,827	246,350	262,478
Carrying amount (EUR thousand)	148,919	262,630	11,747	49,799	7,206	25,270	7,066	98,594

* Due to its immateriality for the consolidated financial statements, this does not include the goodwill for Melasan GmbH (EUR 673 thousand) and acis Arzneimittel GmbH (EUR 47 thousand). Due to the relatively short amount of time elapsed between the acquisition and the date of the impairment test, the purchase price allocation as at 1 July 2019, which was finalised in December 2019, was used to test the goodwill of Fitvia GmbH (EUR 30,251 thousand) for impairment.

30 September 2018	mibe GmbH Arznei-mittel	acis Arznei-mittel GmbH	Bio-Diät-Berlin GmbH	axicorp GmbH	Melasan GmbH	Sun-Farm Sp. z o.o.	Strath-mann GmbH & Co. KG	BLBR GmbH	Tromms-dorff GmbH & Co. KG
Budgeted EBITDA margin	38.13 %	38.61 %	27.04 %	4.41 %	23.11 %	29.92 %	25.70 %	35.98 %	29.35 %
Budgeted EBITDA margin growth	(7.91 %)	(1.79 %)	12.39 %	0.95 %	0.29 %	26.66 %	(9.34 %)	56.97 %	11.33 %
Discount rate	11.21 %	10.55 %	11.36 %	11.23 %	11.42 %	11.27 %	10.08 %	10.28 %	9.73 %
Goodwill (EUR thousand)	1,700	47	7,458	12,766	673	1,848	2,496	2,119	25,481
Value in use (EUR thousand)	531,092	66,059	20,409	109,029	22,506	37,445	24,361	69,434	219,740
Carrying amount (EUR thousand)	127,518	(725)	15,744	51,874	6,901	6,244	23,148	6,372	82,567

The results of the impairment tests are based primarily on the management assumptions described. In order to gauge how changes in certain parameters affect the results, the assumptions are subjected to sensitivity analyses. The assumptions relating to the pre-tax interest rates and EBITDA margins applied in the terminal value were tested for sensitivity.

The sensitivity analysis indicated that a 1.00 % increase in the pre-tax interest rate and a 3.00 % decrease in the EBITDA margin would have resulted in an impairment charge of EUR 12,831 thousand at axicorp GmbH and EUR 20,670 thousand at Euromed Botanicals S.L.

This scenario would not result in any impairment charge for the other cash-generating units.

4.2 Property, plant and equipment

Property, plant and equipment changed as follows:

EUR thousand	Land, land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
Cost				
As at 1 January 2019	**71,655**	**39,870**	**25,617**	**137,143**
Transfers due to changes in accounting standards	7,133	47	2,887	10,067
Exchange differences	58	14	38	109
Additions due to business combinations	7,552	7,160	8,981	23,693
Additions	19,867	8,965	6,424	35,256
Disposals	(2,797)	(1,394)	(504)	(4,695)
Reclassifications	(928)	(844)	1,736	(36)
As at 31 December 2019	**102,540**	**53,817**	**45,179**	**201,537**
Depreciation and impairment				
As at 1 January 2019	**17,559**	**24,467**	**14,244**	**56,269**
Exchange differences	40	8	31	79
Additions (depreciation)	4,544	3,995	6,050	14,588
Additions (impairment)	448	-	8	456
Disposals	(1,055)	(875)	(502)	(2,432)
Reclassifications	-	-	(7)	(7)
As at 31 December 2019	**21,536**	**27,593**	**19,823**	**68,952**
Carrying amounts				
As at 31 December 2018	**54,096**	**15,404**	**11,373**	**80,874**
As at 31 December 2019	**81,005**	**26,224**	**25,356**	**132,585**

EUR thousand	Land, land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
Cost				
As at 1 January 2018	**52,501**	**34,913**	**19,266**	**106,680**
Exchange differences	24	(10)	3	16
Additions due to business combinations	11,082	2,617	5,322	19,021
Additions	7,325	3,912	2,660	13,896
Disposals	(270)	(638)	(1,561)	(2,468)
Reclassifications	994	(922)	(72)	-
As at 31 December 2018	**71,655**	**39,870**	**25,617**	**137,143**
Depreciation and impairment				
As at 1 January 2018	**15,359**	**22,216**	**13,069**	**50,644**
Exchange differences	41	(6)	12	46
Additions (depreciation)	2,162	2,812	2,721	7,696
Additions (impairment)	-	-	-	-
Disposals	(4)	(555)	(1,556)	(2,115)
Reclassifications	-	-	-	-
As at 31 December 2018	**17,559**	**24,467**	**14,244**	**56,269**
Carrying amounts				
As at 31 December 2017	**37,142**	**12,697**	**6,197**	**56,036**
As at 31 December 2018	**54,096**	**15,404**	**11,373**	**80,874**

The assets of the acquired companies were restated in the statement of changes in fixed assets. In accordance with IFRS 3, these are now reported at their net fair values at the date of acquisition under costs as additions due to business combinations. The prior-year statement of changes in fixed assets was also restated.

Property, plant and equipment comprises land, land rights and buildings, technical equipment and machinery as well as other equipment, operating and office equipment.

The carrying amounts for land, land rights and buildings increased in financial year 2019 by EUR 26,909 thousand. The increase was attributable primarily to the land purchased in financial year 2019 by axicorp GmbH (EUR 3,901 thousand), the construction work started at mibe GmbH Arzneimittel (EUR 7,050 thousand) and Melasan GmbH (EUR 6,302 thousand) as well as the acquisition of Euromed (EUR 4,959 thousand).

The disposals relating to land, land rights and buildings include assets that were reclassified as non-current assets held for sale.

The carrying amounts increased by EUR 10,820 thousand for technical equipment and machinery, and by EUR 13,983 thousand for other equipment, operating and office equipment. Equipment increased by EUR 8,965 thousand and other operating and office equipment by EUR 6,424 thousand due to the construction work and the acquisitions in financial year 2019.

There were no indications of impairment in accordance with IAS 36 at the reporting date or in the previous year.

During the reporting period ended 31 December 2019, depreciation of EUR 14,588 thousand was recognised in the statement of comprehensive income (31 December 2018: EUR 7,696 thousand).

The table below presents the right-of-use assets recognised as at 1 January 2019. The right-of-use assets include finance leases reported as property, plant and equipment as at 31 December 2018.

EUR thousand	31 December 2019
Land, land rights and buildings	9,235
Technical equipment and machinery	7
Other equipment, operating and office equipment	3,364
Right-of-use assets	**12,606**

Additions to right-of-use assets amounting to EUR 6,025 thousand were recognised in the reporting period.

The depreciation for right-of-use assets was as follows:

EUR thousand	2019
Land, land rights and buildings	2,047
Technical equipment and machinery	48
Other equipment, operating and office equipment	1,889
Depreciation of right-of-use assets	**3,984**

In financial year 2019, cash outflows for leases amounted to EUR 4,101 thousand (2018: EUR 3,609 thousand). During the reporting period, expenses for short-term leases and leases for which the underlying asset is of low value amounted to less than EUR 1 thousand.

The maturity analysis of lease liabilities can be found in note 4.14.

4.3 Investments accounted for using the equity method

Six associates (31 December 2018: two) were recognised in the consolidated financial statements using the equity method.

Company name	Registered office	Shareholding (%)
31 December 2019		
Hasan Dermapharm Co., Ltd.	Binh Duong Province, Vietnam	30.0
Gynial GmbH	Vienna, Austria	25.1
FYTA Company B.V.	Waalwijk, Netherlands	20.0
FYTA Tech B.V.	Waalwijk, Netherlands	20.0
FYTA Company GmbH	Monheim, Germany	20.0
FYTA Vermögensverwaltung GmbH	Monheim, Germany	20.0

Hasan Dermapharm Co., Ltd., Binh Duong Province, Vietnam

In financial year 2007, Dermapharm AG acquired an interest in Hasan Dermapharm Co. Ltd, in which Dermapharm currently holds a 30 % interest. The company operates a WHO-GMP certified production plant capable of producing nearly all pharmaceuticals sold on the Vietnamese market.

The table below summarises Hasan Dermapharm Co. Ltd.'s financial information as presented in its own financial statements:

EUR thousand	31 December 2019	31 December 2018
Shareholding (%)	30.0	30.0
Non-current assets	4,653	4,551
Current assets	10,041	8,684
Non-current liabilities	-	-
Current liabilities	2,842	1,311
Net assets (100 %)	11,852	11,924
Carrying amount of equity investment	**2,284**	**2,373**
Revenue	19,095	17,277
Earnings after tax (100 %)	5,212	5,286
Group's share of total comprehensive income	**1,564**	**1,586**
Closing rate of EUR/VND	26,002	26,562
Average rate of EUR/VND	26,102	27,271

Gynial GmbH, Vienna, Austria

In 2015, Dermapharm GmbH, Vienna, Austria, acquired a 25.1 % interest in Gynial GmbH. The company focuses on the physical health and the well-being of women with an emphasis on prophylactic measures. Gynial GmbH is purely a sales company and does not operate any production facilities. The transfer of existing contract manufacturing operations from external suppliers to mibe GmbH Arzneimittel, which already operates a contraceptives manufacturing facility, has increased efficiency in production at Dermapharm.

The table below summarises Gynial GmbH's financial information as presented in its own financial statements:

EUR thousand	31 December 2019	31 December 2018
Shareholding (%)	25.1	25.1
Non-current assets	895	780
Current assets	2,434	1,720
Non-current liabilities	-	-
Current liabilities	825	905
Net assets (100 %)	2,504	1,595
Carrying amount of equity investment	**1,641**	**1,413**
Revenue	5,657	5,281
Earnings after tax (100 %)	908	840
Group's share of total comprehensive income	**228**	**211**

FYTA

Pursuant to the purchase agreement dated 4 March 2019, Dermapharm AG acquired 20 % of the shares in FYTA Company B.V. and FYTA Tech B.V. (each having their registered office in Waalwijk, Netherlands), as well as FYTA Company GmbH and FYTA Vermögensverwaltung GmbH (each having their registered office in Monheim, Germany), jointly referred to as "FYTA". For further information on this transaction, please refer to note 2.8.

The table below summarises the financial information reported in FYTA's separate financial statements:

EUR thousand	31 December 2019
Shareholding (%)	20.0
Non-current assets	18,972
Current assets	903
Non-current liabilities	19,773
Current liabilities	7,590
Net assets (100 %)	(7,488)
Carrying amount of equity investment	**58,188**
Revenue	-
Earnings after tax (100 %)	(4,023)
Group's share of total comprehensive income	**(805)**

4.4 Equity investments

Equity investments comprise interests in non-consolidated subsidiaries and associates, which are not accounted for using the equity method.

As at 31 December 2019, Dermapharm's holdings included 100 % of the shares in Tiroler Nussöl Sonnenkosmetik GmbH, Kitzbühel, Austria, 100 % of the shares in mibe Ukraine LLC., Kiev, Ukraine, 100 % of the shares in mibeTec Japan K.K., Tokyo, Japan, 100 % of the shares in mibe pharma España S.L., Barcelona, Spain, and 40 % of the shares in Gynial AG, Hünenberg, Switzerland. These shares, as well as the other shares mentioned in note 2.5, are not consolidated. Due to the limited scope of their business activities, even if these companies are not included in the consolidated financial statements, this results in a true and fair view of Dermapharm's financial position, financial performance and cash flows. As at 31 December 2019, the shares in unconsolidated subsidiaries and associates, which are not accounted for using the equity method, had a carrying amount of EUR 395 thousand (31 December 2018: EUR 382 thousand).

Dermapharm does not intend to dispose of these shares.

4.5 Other non-current financial assets

Other non-current financial assets primarily comprise receivables from derivatives as well as capitalised life insurance policies.

As at 31 December 2019, the receivable from derivatives measured at fair value amounted to EUR 871 thousand and related to the purchase option for the land and buildings of Euromed, which was acquired during financial year 2019.

Anton Hübner GmbH & Co. KG capitalised life insurance policies, which do not qualify as plan assets in accordance with IAS 19 and cannot be netted with future pension obligations. The carrying amount of EUR 404 thousand as at 31 December 2019 (31 December 2018: EUR 393 thousand) is taken from an expert opinion.

4.6 Inventories

Inventories break down as follows:

EUR thousand	31 December 2019	31 December 2018
Finished goods and merchandise	86,475	53,948
Raw materials, consumables and supplies	66,714	41,686
Work in progress	18,978	19,926
Prepayments	3,475	1,406
Inventories	**175,643**	**116,966**

The cost of materials and changes in inventories developed as follows:

EUR thousand	2019	2018
Cost of materials	(343,570)	(287,124)
Change in inventories	13,779	4,264
Expenses for current period	**(329,790)**	**(282,860)**

In the financial years 2019 and 2018, the following write-downs of inventories had to be recognised for the destruction of expired finished goods as well as destruction due to quality shortcomings in raw materials and other defects.

EUR thousand	2019	2018
Finished goods and merchandise, work in progress	4,263	3,341
Raw materials, consumables and supplies	1,807	1,613
Write-downs for current period	**6,070**	**4,954**

No inventories were pledged as securities for liabilities at the end of financial years 2019 and 2018.

4.7 Trade receivables

Trade receivables are generally due within a payment period of between 30 and 120 days and do not bear interest. There are no restrictions of any kind on rights of disposal.

The net balance of trade receivables was as follows:

EUR thousand	31 December 2019	31 December 2018
Gross trade receivables	49,485	34,396
of which fully recoverable	*41,160*	*28,760*
of which past due but not impaired	*7,974*	*5,322*
of which past due and impaired	*351*	*308*
Valuation allowances	(606)	(273)
Net trade receivables	**48,879**	**34,124**

The year-on-year increase in trade receivables is attributable primarily to the successful business combinations in financial year 2019.

The allowance account developed as follows:

EUR thousand	2019	2018
As at 1 January	**(273)**	**(276)**
Valuation allowance on receivables	(333)	3
As at 31 December	**(606)**	**(273)**

4.8 Other current financial assets and other current assets

Other current financial assets and other current assets break down as follows:

EUR thousand	31 December 2019	31 December 2018
Receivables from related parties	2,851	259
Loans to investments accounted for using the equity method	1,083	-
Derivatives	1,041	-
Deposits	9	6
Miscellaneous	1,056	1,101
Other current financial assets	**6,040**	**1,365**
VAT receivables	2,306	666
Prepaid expenses	1,660	1,120
Receivables from tax authorities	569	389
Prepayments	224	290
Receivables from employees	158	113
Money in transit	24	289
Desposit on CFP Packaging purchase price	-	765
Miscellaneous	455	641
Other current assets	**5,396**	**4,272**

Other current financial assets primarily include receivable related to positive fair values of derivatives and receivables from non-controlling interests.

The positive fair value of the receivable from derivatives recognised resulted primarily from a claim held by Dermapharm AG against Themis Beteiligungs-AG for compensation for all future payments in relation to two cross-currency swaps which Dermapharm AG concluded with Unicredit Bank in 2008 and 2010. One cross-currency swap already matured in financial year 2018, and the other swap will expire in financial year 2020. The positive fair value of the receivable was EUR 1,041 thousand as at 31 December 2019 (31 December 2018: EUR 2,628 thousand). The corresponding negative fair value of the derivative is recognised in other current financial liabilities. Dermapharm AG has filed an action against Unicredit Bank in connection with the cross-currency swaps. For further information, please refer to note 8.2.

Miscellaneous other current financial assets included receivables from minority interests amounting to EUR 1,011 thousand at 31 December 2019 (31 December 2018: EUR 1,001 thousand). For detailed information regarding receivables from related parties, please refer to note 9.

Prepaid expenses include payments for services that will not be provided until after the reporting date.

4.9 Cash and cash equivalents

Cash and cash equivalents changed as follows:

EUR thousand	31 December 2019	31 December 2018
Bank balances	114,710	212,470
Cash-in-hand	246	51
Cash and cash equivalents	**114,956**	**212,520**

Dermapharm maintains credit facilities with various German and international banks. For information about the utilisation of these credit facilities at the respective reporting date, please refer to note 7.1c).

4.10 Non-current assets held for sale

Non-current assets held for sale comprise the property owned by Farmal d. d., Ludbreg, Croatia. In financial year 2019, the company merged with mibe Pharmaceuticals d. o. o., Zagreb, Croatia. The Ludbreg site was closed in connection with the merger. Both companies have been allocated to the "Branded pharmaceuticals and other healthcare products" segment.

As at the reporting date, the property in Ludbreg was up for sale and is expected to be sold in the second half of 2020. It was measured at fair value less costs to sell. In financial year 2019, it was written down by EUR 122 thousand.

4.11 Equity

Issued capital and IPO

At 31 December 2019, the issued capital (share capital) amounted to EUR 53,840 thousand divided into 53,840,000 no-par value bearer shares. Each no-par value share carries one vote. The number of issued shares has not changed since 1 January 2019.

Dermapharm's shares are listed on the Regulated Market and the Prime Standard sub-segment of the Frankfurt Stock Exchange under German Securities Code (WKN) A2GS5D, International Securities Identification Number (ISIN) DE000A2GS5D8 and ticker symbol DMP.

Authorised capital

The Board of Management is authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period until 1 January 2023 (inclusive) against cash or in-kind contributions by a total of up to EUR 16,100 thousand by issuing new no-par value bearer shares (Authorised Capital 2018).

The Board of Management is furthermore authorised, subject to the consent of the Supervisory Board, to stipulate the further details concerning the rights attaching to the shares and the terms of their issue as well as to exclude shareholders' subscription rights under certain conditions and within defined limits.

To date, the Authorised Capital 2018 has not been utilised.

Contingent capital

The issued capital is contingently increased by a total of up to EUR 10,700 thousand by issuing a total of up to 10,700,000 new no-par value bearer shares (Contingent Capital 2018). The contingent capital increase serves to grant shares to holders or creditors of convertible bonds and to holders of option rights from warrant-linked bonds issued by the Company or a domestic or foreign entity in which the Company directly or indirectly holds a voting and capital majority in the period until 25 January 2023 (inclusive) on the basis of the authorisation resolved by the Annual General Meeting of 26 January 2018. The contingent capital increase will only be implemented to the extent that conversion or option rights from the aforementioned bonds are actually exercised or conversion obligations from such bonds are fulfilled and to the extent that no other forms of fulfilment are used to service them.

The Board of Management is authorised, subject to the consent of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase.

To date, the Contingent Capital 2018 has not been utilised. For further information on changes in equity, please refer to the consolidated statement of changes in equity.

Capital reserves

The change in capital reserves during financial year 2019 was attributable to the recognition of the call/put option and the associated deferred taxes in connection with the acquisition of the remaining 30 % interest in Fitvia.

Dividend

In accordance with the German Stock Corporation Act, the dividend is distributed from the unappropriated net earnings as reported in Dermapharm Holding SE's HGB single-entity financial statements. The Board of Management and the Supervisory Board intend to recommend that the Annual General Meeting distribute a dividend of EUR 0.80 per share carrying dividend rights. The proposed distribution still has to be approved by the shareholders at the Annual General Meeting and is therefore not recognised as a liability in the consolidated financial statements.

Pursuant to the resolution adopted by the Annual General Meeting on 4 June 2019, a dividend of EUR 41,457 thousand (EUR 0.77 per share carrying dividend rights) was distributed from the unappropriated net earnings for the 2018 financial year. The dividend was distributed on 7 June 2019.

Transactions with non-controlling interests without change of control

In acquiring the equity investment in FYTA, Dermapharm assigned 49.9 % of the shares of remedix GmbH, Friedrichsdorf, to UWF Beteiligungsgesellschaft mbH, Monheim. For further information on this transaction, please refer to note 2.8.

4.12 Provisions for employee benefits

As at the reporting date, plan assets break down as follows:

EUR thousand	31 December 2019	31 December 2018
Defined benefit obligation	823	769
Fair value of plan assets	(393)	(404)
Total	**431**	**365**

Provisions for pensions (excluding plan assets) amount to EUR 56,545 thousand (31 December 2018: EUR 50,360 thousand).

Expenses for defined benefit plans break down as follows:

EUR thousand	2019	2018
Interest expense	823	778
Current service cost	558	570
Total	**1,381**	**1,347**

The table below shows the reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

EUR thousand	Pension obligations	Fair value of plan assets	Net pension obligation
As at 1 January 2019	**51,129**	**404**	**50,726**
Gain / loss			
Current service cost	558	-	558
Interest expense	829	-	829
Interest income	-	6	(6)
Remeasurement			
Actuarial gains/losses			
of which due to changes in financial assumptions	*7,619*	-	*7,619*
of which due to changes in demographic assumptions	-	-	-
of which experience-based adjustments	*(1,063)*	-	*(1,063)*
Return on plan assets, excl. previously recognised interest income	-	54	(54)
Miscellaneous			
Employer contributions	-	5	(5)
Employee contributions	-	9	(9)
Retirement benefits	(1,704)	(86)	(1,618)
As at 31 December 2019	**57,368**	**393**	**56,976**

EUR thousand	Pension obligations	Fair value of plan assets	Net pension obligation
As at 1 January 2018	**13,571**	**538**	**13,033**
Additions due to acquisitions	36,708	-	36,708
Subtotal	**50,279**	**538**	**49,742**
Gain / loss			
Current service cost	570	-	570
Interest expense	787	-	787
Interest income	-	9	(9)
Remeasurement			
Actuarial gains/losses			
of which due to changes in financial assumptions	*278*	-	*278*
of which due to changes in demographic assumptions	*574*	-	*574*
of which experience-based adjustments	*249*	-	*249*
Return on plan assets, excl. previously recognised interest income	-	(52)	52
Miscellaneous			
Employer contributions	-	5	(5)
Employee contributions	-	10	(10)
Retirement benefits	(1,608)	(106)	(1,502)
As at 31 December 2018	**51,129**	**404**	**50,726**

There were no exchange differences because all provisions for pensions were recognised by German entities. At the reporting date, plan assets included EUR 393 thousand in securities (31 December 2018 EUR 404 thousand). All security funds have quoted prices in active markets.

Risk resulting from pension obligations

The risks from defined benefit plans arise partly from the defined benefit obligations and partly from the investment in plan assets. The risks result from the possibility that higher direct pension payments will have to be made to the beneficiaries.

Demographic / biometric risks

Since a large proportion of the defined benefit obligations comprises lifelong pension payments to retirees or their surviving dependents, pensions, longer claim periods and earlier claims may result in higher benefit obligations, higher benefit expense and/or higher pension payments than previously anticipated.

Investment risks

If the actual return on plan assets falls below the return anticipated on the basis of the discount rate, the net defined benefit liability would increase, assuming no changes to other parameters. This could happen as a result of a drop in share prices, increases in market rates of interest, default on the part of individual debtors or the purchase of low-risk but low-interest bonds, for example.

Interest rate risks

The principal actuarial assumptions at the reporting date are presented below (expressed as weighted averages):

in %	31 December 2019	31 December 2018
Discount rate	0.8	1.7
Salary trend	1.0	1.0
Pension trend	1.8	1.7

The sensitivity of the total pension commitments to changes in the average assumptions is as follows:

Pension obligations	Change in actuarial assumptions	Impact as at 31 December 2019		Impact as at 31 December 2018	
EUR thousand		Pension obligations	Change	Pension obligations	Change
	1.00 % increase	49,000	(8,368)	43,965	(7,164)
Discount rate	1.00 % decrease	68,119	10,750	60,271	9,141
	0.50 % increase	57,821	452	51,676	547
Salary trend	0.50 % decrease	56,934	(435)	50,606	(523)
	0.50 % increase	61,377	4,009	54,513	3,384
Pension trend	0.50 % decrease	53,734	(3,634)	48,052	(3,077)
	1 year increase	60,909	3,541	53,929	2,800
Life expectancy	1 year decrease	0	0	270	(14)

At 31 December 2019, the weighted duration of the pension obligations was 14 years (31 December 2018: 13 years).

The above sensitivity analysis is based on the change in one assumption, with all other factors remaining constant. Changes in several assumptions can be correlated. The same method was used to calculate the sensitivity of defined benefit obligations to actuarial assumptions as was used to calculate the provisions for pensions in the statement of financial position.

In order to limit the aforementioned risks and comply with future obligations, Anton Hübner GmbH & Co. KG has taken out life insurance policies, which, however, do not qualify as plan assets in accordance with IAS 19 and cannot be netted against future pension obligations. Please refer to note 4.5 for further information. The same applies to Trommsdorff GmbH & Co. KG, which holds EUR 909 thousand in a bank account pledged as security for the purpose of insolvency protection for early partial retirement.

4.13 Other provisions

Other provisions changed as follows:

EUR thousand	Health insurance discounts	Litigation	Miscellaneous	Total
As at 1 January 2019	**7,593**	**814**	**179**	**8,586**
Additions	13,903	645	252	14,800
Reversals	(325)	(4)	(90)	(419)
Utilisations	(6,509)	(253)	-	(6,762)
Exchange differences	-	34	-	34
As at 31 December 2019	**14,661**	**1,235**	**342**	**16,238**

EUR thousand	Health insurance discounts	Litigation	Miscellaneous	Total
As at 1 January 2018	**6,595**	**402**	**20**	**7,017**
Additions	7,492	644	269	8,405
Reversals	(273)	(6)	(90)	(368)
Utilisations	(6,220)	(239)	(20)	(6,479)
Exchange differences	-	12	0	12
As at 31 December 2018	**7,593**	**814**	**179**	**8,586**

As a consequence of regulatory state interventions on the pharmaceuticals market in Germany, the Group is obligated to negotiate discount agreements with health insurance organisations. For further information on provisions for health insurance discounts, please refer to note 3.

The miscellaneous item includes provisions for onerous contracts and restructuring provisions.

As at 31 December 2019, a restructuring provision was recognised amounting to EUR 252 thousand. The provision primarily includes outstanding personnel expenses incurred in connection with the cessation of business activities by Bio-Diät-Berlin GmbH, Berlin, and its subsidiary Kräuter Kühne GmbH, Berlin.

4.14 Financial liabilities

Financial liabilities changed as follows:

EUR thousand	31 December 2019	31 December 2018
Bank loans	414,583	204,672
Promissory note loans	119,009	27,879
Lease liabilities	9,755	192
Non-current financial liabilities	**543,347**	**232,743**
Bank loans	2,251	11,840
Promissory note loans	-	53,494
Lease liabilities	3,049	161
Bank overdrafts	5,963	6,082
Current financial liabilities	**11,264**	**71,577**

Material new funding

At the beginning of financial year 2019, Dermapharm AG took out a EUR 150,000 thousand loan with a German bank to serve as bridge financing for the acquisition of shares in Euromed. The loan beared a floating rate of interest (3-month EURIBOR plus a margin) and a maximum maturity until 30 December 2019. This loan was repaid in full following the entry into a syndicated loan agreement in June 2019.

On 7 June 2019, Dermapharm and five banks entered into a syndicated loan agreement for a bullet loan and revolving credit facilities in the total amount of EUR 500,000 thousand. This agreement supersedes the EUR 362,200 thousand in bilateral agreements in place with those banks up to that date.

The agreement comprises three primary components.

- Facility A permits a total of EUR 400,000 thousand to be drawn down. That amount was fully utilised as at the reporting date.
- Facility A also includes an option to increase the amount by between EUR 50,000 thousand and EUR 200,000 thousand in the period to 2022.
- Facility B comprises an overdraft facility in the total amount of EUR 100,000 thousand.

The loan bears a floating rate of interest (3-month EURIBOR plus a margin), is subject to a leverage covenant, and has a maximum term of five years. It gave rise to EUR 2,355 thousand in transaction costs. The loan will subsequently be measured at amortised cost using the effective interest method.

Interest rate floors with negative market values in the amount of EUR 743 thousand were recognised in connection with the terminated bilateral loans. These were derecognised in the second quarter.

On 7 May 2019, Melasan GmbH entered into an agreement with an Austrian bank for a EUR 8,500 thousand term loan facility to finance a new production and distribution facility. The loan bears a floating rate of interest (3-month EURIBOR plus a margin) and a maximum term of ten years. The loan agreement is repayable in flat-rate monthly instalments from 31 March 2020. In line with the progress of construction works, EUR 7,558 thousand of the loan had been drawn down as at the reporting date.

Pursuant to the loan agreement dated 16 September 2019, mibe GmbH Arzneimittel also took out a loan of EUR 10,000 thousand to finance the new logistics centre at the production site in Brehna. The loan carries a fixed rate of interest and is repayable in equal quarterly instalments until 31 August 2029.

In November 2019, Dermapharm entered into a EUR 100,000 thousand promissory note loan. This includes EUR 8,500 thousand from an existing promissory note loan amounting to EUR 28,000 thousand that was transferred to the new promissory note loan against payment of an early repayment penalty upon execution of the agreement on 20 November 2019. The loan agreement consists of several tranches, each with a floating rate of interest (6-month EURIBOR plus a margin) and a fixed rate of interest for terms of five, seven and ten years. The transaction costs incurred in connection with the promissory note loan amounted to EUR 464 thousand.

Lease liabilities

The maturity analysis for the lease liabilities is as follows:

EUR thousand	2019
Remaining term of:	
with a remaining term of less than one year	3,049
between one and five years	4,611
with a remaining term of more than five years	5,144
Total	**12,804**

4.15 Trade payables

Trade payables fall due within one year and do not bear interest. They generally fall due for payment within 0 to 60 days. The item also includes all trade payables not invoiced as of the reporting date.

4.16 Other non-current financial liabilities and other non-current liabilities

Other non-current financial liabilities mainly comprise the fair values of derivatives. At 31 December 2019, the negative fair value of the derivatives totalled EUR 18,684 thousand (31 December 2018: EUR 3,395 thousand) and includes the put option for the remaining shares in Fitvia GmbH not held by Dermapharm and interest rate swaps.

The other non-current liabilities mainly comprise government grants. In accordance with IAS 20, government grants for assets are recognised as deferred income and had a carrying amount of EUR 10,070 thousand as at the reporting date (31 December 2018: EUR 9,583 thousand).

4.17 Other current financial liabilities and other current liabilities

Other current financial liabilities and other current liabilities comprise the following:

EUR thousand	31 December 2019	31 December 2018
Purchase price liabilities	6,022	-
Derivatives	1,041	-
Liabilities to related parties	17	4
Miscellaneous	-	2
Other current financial liabilities	**7,079**	**6**
Other personnel-related liabilities	11,516	8,213
VAT liabilities	7,430	4,418
Holdback Euromed	4,206	-
Prepayments received	1,217	283
Government grants	679	839
Deferred income	189	185
Miscellaneous	1,333	1,078
Other current liabilities	**26,571**	**15,016**

Other current liabilities have a maturity of up to one year and do not bear interest. For information concerning the liabilities to related parties, please refer to note 9.

Other current financial liabilities also include the outstanding purchase price liability for the final purchase price in connection with the acquisition of Fitvia. For further information on this acquisition, please refer to note 2.7. As described in note 4.8, Dermapharm also recognises the negative fair value of the cross-currency swap in this item.

Government grants which are reported under other current liabilities comprise the portion which will be reversed in the course of the next 12 months.

Deferred income relates to payments that have been received, for which the corresponding services have not yet been rendered.

As in the previous year, personnel-related liabilities comprise holiday entitlements, income and church taxes due, liabilities for bonuses and company pensions and other personnel-related charges.

4.18 Income taxes

Income taxes include taxes on income and earnings paid or owed in the individual countries as well as deferred tax assets or liabilities.

Profit and loss transfer agreements

There is a consolidated income tax group in place between Dermapharm AG and its subsidiaries mibe GmbH Arzneimittel, mibe Vertrieb GmbH, Hübner Naturarzneimittel GmbH, acis Arzneimittel GmbH, Bio-Diät GmbH and Kräuter Kühne GmbH as well as with axicorp GmbH and axicorp Pharma GmbH. In addition, there is a consolidated income tax group in place between Strathmann GmbH & Co. KG and Biokirch GmbH.

Effects on current income tax expense

The current income tax expenses are recognised at Dermapharm AG as the tax group parent.

The key components of income tax expenses for the 2019 and 2018 financial years break down as follows:

EUR thousand	2019	2018
Current income taxes	**36,448**	**29,806**
Deferred taxes		
from temporary differences	(4,148)	(1,168)
from tax loss carryforwards	(46)	374
Subtotal	**(4,194)**	**(794)**
Income tax expenses	**32,254**	**29,011**

The calculation of the current taxes as well as deferred tax assets and liabilities for the foreign subsidiaries was based on tax rates of between 18 % and 25 %. The calculation of deferred tax assets and liabilities applied the tax rates valid at the time the asset is realised or the liability is repaid.

Deferred taxes are calculated for the companies included in Dermapharm AG's consolidated tax group using a mixed income tax rate of 27.35 % as at 31 December 2019 (31 December 2018: 27.29 %).

The following overview explains how the effective income tax expense reported in the income statement was derived from the expected income tax expense. The expected income tax expense is calculated by applying the nominal tax rate of a corporation headquartered in Grünwald to earnings before taxes.

Reconciliation to effective tax rate

EUR thousand	2019		2018	
Earnings before taxes		110,066		104,237
Expected tax expenses	**24.23 %**	**26,663**	**24.23 %**	**25,251**
Utilisation of tax loss carryforwards	(0.25 %)	(277)	0.00 %	-
Non-deductible operating expenses	0.06 %	64	0.14 %	151
Tax-exempt income	(0.12 %)	(134)	(0.34 %)	(351)
Prior-year taxes	(0.08 %)	(89)	(0.04 %)	(37)
Difference to Group tax rate	2.84 %	3,131	1.81 %	1,890
Miscellaneous	2.13 %	2,342	0.93 %	970
Adjustment of profit in accordance with section 60 (2) EStDV	(0,21 %)	(234)	(0.79 %)	(828)
Tax loss carryforwards not utilised	0.72 %	788	1.88 %	1,964
Current tax expense	**29.30 %**	**32,254**	**27.83 %**	**29,011**

The higher effective income tax rates are due primarily from the consolidated tax groups of Dermapharm AG and Strathmann GmbH & Co. KG. The mixed income tax rates are higher than the consolidated tax rate of 24.23 %.

Deferred taxes as at the reporting date were as follows:

EUR thousand	31 December 2019	31 December 2018
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	17,551	10,234
Deferred tax assets to be recovered within 12 months	1,114	560
Total deferred tax assets	**18,665**	**10,794**
Deferred tax liabilities		
Deferred tax assets liabilities to be recovered after more than 12 months	(40,121)	(14,685)
Deferred tax assets liabilities to be recovered within 12 months	(5,583)	(521)
Total deferred tax liabilities	**(45,703)**	**(15,207)**
of which deferred tax assets reported in the statement of financial position	***0***	***39***
of which deferred tax liabilities reported in the statement of financial position	***(27,038)***	***(4,452)***

The change in deferred taxes in the statements of financial position as at 31 December 2019 and 31 December 2018 was as follows:

EUR thousand	1 January 2019	Income statement	Capital reserves	Other comprehensive income	Acquired through business combination	31 December 2019	Deferred tax assets	Deferred tax liabilities
Intangible assets	(13,567)	2,744	-	(27)	(31,067)	(41,917)	839	(42,756)
Property, plant and equipment	(581)	251	-	-	(1,871)	(2,201)	321	(2,522)
Financial instruments	209	(416)	-	-	-	(207)	-	(207)
Inventories	-	908	-	-	(908)	-	-	-
Other non-current financial assets	-	17	-	-	(235)	(218)	-	(218)
Other non-current financial liabilities	-	-	5,032	-	-	5,032	5,032	-
Pension obligations	8,615	(134)	-	2,057	-	10,538	10,538	-
Other provisions	204	711	-	-	200	1,115	1,115	-
Intra-group result	157	68	-	-	-	225	225	-
Deferred taxes on tax loss carryforwards	550	45	-	-	-	595	595	-
Tax asset / (liability)	**(4,413)**	**4,194**	**5,032**	**2,030**	**(33,880)**	**(27,037)**	**18,665**	**(45,703)**

EUR thousand	1 January 2018	Income statement	Other comprehensive income	Acquired through business combination	31 December 2018	Deferred tax assets	Deferred tax liabilities
Intangible assets	(13,061)	816	-	(1,322)	(13,567)	958	(14,525)
Property, plant and equipment	-	(581)	-	-	(581)	2	(583)
Financial instruments	78	131	-	-	209	209	-
Other current financial assets	(34)	34	-	-	-	-	-
IPO expenses	(19)	19	-	-	-	-	-
Pension obligations	1,242	522	(367)	7,218	8,615	8,615	-
Other provisions	8	196	-	-	204	303	(99)
Intra-group result	126	31	-	-	157	157	-
Deferred taxes on tax loss carryforwards	924	(374)	-	-	550	550	-
Tax asset / (liability)	**(10,736)**	**794**	**(367)**	**5,896**	**(4,413)**	**10,794**	**(15,207)**

The deferred tax liabilities resulted primarily from acquisitions and capitalised development costs, which are recognised under intangible assets. Deferred tax liabilities on capitalised development costs amounted to EUR 10,746 thousand as at 31 December 2019 (31 December 2018: EUR 9,157 thousand).

The acquisition of Euromed gave rise to deferred tax assets of EUR 527 thousand and deferred tax liabilities of EUR 31,399 thousand. Of that amount, EUR 5,015 thousand was amortised in 2019.

In addition, deferred tax liabilities of EUR 2,982 thousand from the acquisition of Fitvia were recognised in the past financial year. Of that amount, EUR 373 thousand was amortised in 2019. Deferred tax assets of EUR 5,032 thousand were recognised in connection with the put option relating to the acquisition of Fitvia. These were recognised in the capital reserves with no effect on profit or loss.

As at 31 December 2019, Dermapharm carried a total of EUR 12,423 thousand (31 December 2018: EUR 13,230 thousand) in tax losses forward. These resulted from remedix GmbH, Dermapharm Holding SE, mibeTec GmbH, mibe pharmaceuticals d.o.o., mibe pharma Italia Srl. and mibe pharma UK Ltd. In financial year 2019, deferred tax assets amounting to EUR 595 thousand (31 December 2018: EUR 550 thousand) were recognised in respect of tax loss carryforwards of EUR 2,257 thousand (31 December 2018: EUR 2,014 thousand), whereas no deferred tax assets were recognised for tax loss carryforwards of EUR 10,166 thousand (31 December 2018: EUR 11,216 thousand) despite individual positive earnings forecasts on account of the loss history. Deferred tax assets from loss carryforwards were not written down in financial year 2019 (31 December 2019: EUR 308 thousand).

Deferred tax liabilities for taxable temporary difference in connection with investments in subsidiaries and associates (outside-basis differences)

In accordance with IAS 12, no deferred tax liabilities were recognised for temporary differences amounting to EUR 75,682 thousand in connection with investments in subsidiaries and associates. Under the current rules, if these differences led to the recognition of deferred tax liabilities, this would result in a tax liability of EUR 917 thousand.

Tax assets

Tax assets amounted to EUR 231 thousand as at 31 December 2019 (31 December 2018: EUR 1,990 thousand). These are attributable primarily to axicorp GmbH's tax prepayments.

Tax liabilities

Tax liabilities of EUR 5,914 thousand were reported as at 31 December 2019 (31 December 2018: EUR 23,032 thousand). These resulted primarily from Trommsdorff GmbH & Co. KG, Dermapharm AG, Strathmann GmbH & Co. KG, and Fitvia GmbH.

5. Notes to the consolidated statement of comprehensive income

5.1 Revenue

Dermapharm generates its revenue primarily through the supply of products.

The primary focus of Dermapharm's business lies on the German market. The consolidated revenue generated in Germany in the reporting period amounted to EUR 588,852 thousand (2018: EUR 537,254 thousand) and accounted for 84 % (2018: 94 %) of total consolidated revenue. In Spain, Euromed generated consolidated revenue of EUR 72,269 thousand in the reporting period, corresponding to 10 % of consolidated revenue. Revenue generated in Austria and Switzerland, representing approximately 4 % (2018: 4 %) of consolidated revenue overall, amounted to EUR 26,157 thousand (2018: EUR 24,110 thousand). A less significant portion of the Group's revenue (EUR 13,600 thousand; 2018: EUR 11,059 thousand) is generated in eastern Europe, primarily in Poland and Croatia, and in the United Kingdom, Italy and the United States. Consolidated revenue is allocated on the basis of where the respective companies are located.

Revenue and EBITDA are the two key performance indicators which the Board of Management of Dermapharm Holding SE uses as the basis for steering the Group. Additional information on the development of revenue during the reporting period is contained in the Segment Reporting section contained in note 6.

5.2 Other operating income

Other operating income comprise the following:

EUR thousand	2019	2018
Currency translation gains	2,712	263
Income from the reversal of provisions and derecognition of liabilities	1,480	2,931
Netting of employee in-kind benefits and proceeds from employee grants	969	877
Government grants	865	1,474
Insurance refunds and damages	486	190
Charges passed on	433	20
Prior-period income	417	130
Income from disposals of fixed assets	311	72
Credits for goods	-	861
Miscellaneous	836	949
Other operating income	**8,508**	**7,767**

5.3 Personnel expenses and number of employees

Personnel expenses comprise the following:

EUR thousand	2019	2018
Wages and salaries	96,121	77,881
Social security expenses	19,281	14,246
Severance payments	521	130
Personnel expenses	**115,923**	**92,257**

In financial year 2019, expenses for company pension plans in the amount of EUR 1,176 thousand (2018: EUR 1,236 thousand) were reported under personnel expenses and included in social security expenses in the table above.

The table below provides an overview of the Dermapharm's average number of employees at the end of the financial year:

Function	2019	2018
Production	726	573
Marketing & sales	442	404
Administration	441	416
Logistics	159	147
Product development	85	79
Average number of employees	**1,853**	**1,619**

The primarily reasons for the increase in personnel included the acquisitions of Euromed and Fitvia as well as new hires in connection with Dermapharm's overall positive performance.

5.4 Other operating expenses

Other operating expenses comprise the following:

EUR thousand	2019	2018
Marketing and sales costs	27,243	18,591
Freight and warehousing	11,724	5,673
Legal and consulting fees	11,455	9,079
Development and production costs	11,207	7,679
Contributions, fees, charges and other taxes	10,075	8,953
Incidental rental costs (previous year: rental expenses incl. ancillary costs)	8,081	6,307
Maintenance expenses	7,203	6,414
Currency translation losses	3,635	1,054
Purchased services	2,268	2,308
Travel expenses	1,833	1,092
Vehicle expenses	1,511	2,879
Communication	1,205	1,060
Personnel expenses	1,205	1,114
Miscellaneous	8,023	5,236
Other operating expenses	**106,667**	**77,438**

5.5 Financial result

The financial result comprises the following:

EUR thousand	2019	2018
Interest income	2,061	1,820
Income from fair value measurement	593	2,124
Miscellaneous	81	6
Financial income	**2,736**	**3,949**
Interest expense	(9,753)	(6,020)
Leasing	(317)	(14)
Expenses from fair value measurement	(179)	(2,192)
Miscellaneous	(824)	(792)
Financial expenses	**(11,073)**	**(9,018)**
Share of profit / loss of companies accounted for using the equity method, after tax	**(1,111)**	**1,796**
Financial result	**(9,448)**	**(3,272)**

The increase in financial expenses is due in particular to the financing raised in the first half of 2019. For additional information, please see note 4.14.

5.6 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to holders of ordinary shares by the weighted average number of shares outstanding, as presented below:

EUR thousand	2019	2018
Profit (loss) attributable to the owners of Dermapharm Holding SE	77,196	75,323
Weighted average number of shares outstanding (in thousands of shares)	53,840	53,419
Earnings per share	**1.43**	**1.41**

Weighted average number of ordinary shares

in thousands of shares	2019	2018
Number of shares outstanding at the beginning of the period	53,840	50,000
Number of shares outstanding at the end of the period	53,840	53,840
Weighted average number of shares outstanding	53,840	53,419
Number of potentially dilutive ordinary shares	-	-
Weighted average number of shares used to calculate diluted earnings per share	**53,840**	**53,419**

6. Segment reporting

6.1 Notes to segment reporting

In the segment reporting, Dermapharm's activities are broken down by segment and region in accordance with the provisions of IFRS 8 (Segment Reporting). The breakdown reflects internal management structures as well as the varying risk and profit profiles of the individual segments.

Based on this, Dermapharm defined the two segments "Branded pharmaceuticals and other healthcare products" and "Parallel import business" in line with its internal reporting structure. At the beginning of 2019, the Group formed the new "Herbal extracts" segment after acquiring Euromed. The shares in FYTA acquired in the first half of 2019 were also allocated to this segment.

Dermapharm's "Branded pharmaceuticals and other healthcare products" segment covers numerous product areas through a wide range of products sold under well-known brand names. Dermapharm focuses on the development, manufacturing and marketing of branded pharmaceuticals and other healthcare products for specifically selected markets in which Dermapharm generally holds a significant market share and is able to generate attractive margins.

Dermapharm's parallel import business, which operates under the well-known "axicorp" brand, benefits from the statutory requirement that at least 5 % of all prescription medications sold within the state healthcare system in Germany must be imported from other member states of the European Economic Area (EEA) in order to help decrease healthcare costs. The actual market share of parallel imports in Germany is higher than 5 %.

Herbal extracts are the next logical step in the process to expand Dermapharm's value chain. By acquiring Euromed, the Group raised its international profile and strengthened its expertise in the growth market for herbal pharmaceuticals. Herbal extracts and natural active ingredients are needed as precursors in the manufacturing of phytopharmaceuticals (herbal pharmaceuticals), nutraceuticals (functional foods) and cosmetics products.

As is customary in the industry, Dermapharm maintains business relationships with Germany's major pharmaceuticals wholesalers. Overall, roughly two-thirds of consolidated revenue is generated with five pharmaceuticals wholesalers. The gross revenue generated by the Group from those five customers in the 2019 and 2018 financial years was as below:

	2019		2018	
EUR thousand	Gross revenue	Share of gross consolidated revenue (%)	Gross revenue	Share of gross consolidated revenue (%)
Wholesaler A	121,267	15 %	113,340	17 %
Wholesaler B	98,820	12 %	90,013	13 %
Wholesaler C	72,759	9 %	71,058	10 %
Wholesaler D	63,805	8 %	60,871	9 %
Wholesaler E	58,586	7 %	60,777	9 %

The concentration of revenue on certain wholesalers does not lead to any dependencies for Dermapharm, because the demand of the numerous end customers in the pharmacies is ultimately the decisive factor for the Group's revenue. In this regard, the wholesalers play a merely logistical role. Any reduction in demand in the event of the loss of one wholesaler would immediately be compensated for by another wholesaler. Furthermore, the wholesalers' credit risk – which is already insignificant due to the high frequency of comparatively small-volume orders – represents a much less significant risk for Dermapharm.

6.2 Segment reporting

Segment reporting uses key performance indicators – revenue and EBITDA and the indicators derived therefrom – for Dermapharm's individual segments. There is trade between the individual segments only to a limited extent; this is presented in the "intra-segment revenue" line item. The reconciliation column also shows expenses incurred by Dermapharm Holding SE for services provided to the reporting segments through its role as the parent company, as it performs no operational activities.

Any transactions entered into for the provision of goods and services within the segments are reported on a consolidated basis. The exchange of goods and/or services between the segments was conducted at arm's-length prices.

The segment assets and liabilities for each segment are not regularly reported to the Board of Management and are therefore not presented in the segment reporting.

The following tables show the changes in the performance indicators reported internally to Dermapharm's Board of Management by segments:

2019 EUR thousand	Branded pharmaceuticals and other healthcare products	Parallel import business	Herbal extracts*	Reconciliation / Group holding company	Group
Revenue	387,386	243,462	72,302	(2,272)	700,879
of which intersegment revenue	*2,239*	-	*33*	*(2,272)*	-
Revenue from external customers	385,147	243,462	72,269	-	700,879
Revenue growth	15 %	2 %	-	-	22 %
EBITDA	153,037	8,251	12,824	(5,584)	168,528
of which earnings from investments accounted for using the equity method	*1,792*	-	*(2,902)*	-	*(1,111)*
EBITDA margin	40 %	3 %	18 %	-	24 %

* Included since January 2019

2018 EUR thousand	Branded pharmaceuticals and other healthcare products	Parallel import business	Reconciliation / Group holding company	Group
Revenue	336,047	237,768	4,274	578,090
of which intersegment revenue	*1,389*	*2*	*4,274*	*5,666*
Revenue from external customers	334,658	237,766	-	572,424
Revenue growth	49 %	(2 %)	-	23 %
EBITDA	132,817	9,043	(2,227)	139,632
of which earnings from investments accounted for using the equity method	*1,796*	-	-	*1,796*
EBITDA margin	40 %	4 %	-	24 %

The Group's EBITDA is reconciled to consolidated profit or loss as follows:

EUR thousand	2019	2018
EBITDA	**168,528**	**139,632**
Depreciation and amortisation	(50,125)	(30,327)
Financial income	2,736	3,949
Financial expenses	(11,073)	(9,018)
Earnings before taxes (EBT)	**110,066**	**104,237**
Income tax expenses	(32,254)	(29,011)
Profit or loss for the period	**77,811**	**75,226**

7. Financial risk management and financial instruments

7.1 Financial risk factors

Dermapharm's future market development is exposed to a host of financial risks (market risk – including currency and interest rate risk – as well as credit and liquidity risk) due to the fact that its competitive environment is subject to state regulation, as well as to volatile prices for raw materials and stagnating prices caused by the government-initiated price freeze.

However, given its financial stability, the Group is well positioned to overcome future risks. At present, no risks that could jeopardise the Company's ability to operate as a going concern have been identified.

Dermapharm's risk management focused on identifying and assessing risks which arise as a result of unpredictable developments on the financial markets, among other things, as well as the appropriate management of potential negative impacts on the Group's financial position.

The risk management system is overseen centrally by the Risk Officer and by the Board of Management as a whole. It is regularly reviewed for effectiveness and appropriateness. By contrast, individual risks are monitored and organised on a decentralised basis. Depending on the category and scope of the risks, this is the responsibility of either the heads of departments and managing directors, or the members of the Board of Management of Dermapharm Holding SE. Potential risks are communicated regularly, either verbally or in writing, to all relevant divisions and companies.

The Group's Finance department works closely with the operating units to identify and assess financial risks. Management sets out both the principles for cross-divisional risk management and guidelines for specific risks, such as exposure to foreign currency, interest and credit risks, the use of derivative and non-derivative financial instruments and investments of liquidity surpluses.

Significant financial liabilities include interest-bearing financial liabilities, trade payables and other liabilities. Financial liabilities serve in particular to guarantee that the Group's operations are financed and secured. In addition, Dermapharm reports trade and other receivables and cash and cash equivalents which result directly from its business activities.

Derivative financial instruments are used by the Group to hedge against certain risks.

The following statements discuss the Group's exposure to identified financial risks. Furthermore, the goals, strategies and processes for risk management as well as the methods used to measure the risks are described.

a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to effectively manage market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Currency risk relates to either translation risk or transaction risk.

Translation risk describes the risk from changes to items of the statement of financial position and statement of comprehensive income for a subsidiary due to changes to the exchange rates when converting local financial statements into the Group's presentation currency. Changes caused by currency fluctuations when translating items of the statement of financial position are recognised in equity. Dermapharm is currently exposed to such a risk through subsidiaries, although this risk is negligible due to the size of those companies.

Transaction risk is the risk that the value of future foreign currency payments may change due to exchange rate fluctuations. Dermapharm operates internationally and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to euros.

IFRS 7 requires that sensitivity analyses be prepared to accompany the presentation of market risks arising in connection with financial instruments; these analyses must show the impact that hypothetical changes in relevant risk variables might have on profit or loss for the period and on equity. The analysis presented below is one-dimensional and does not take into account tax effects. The table shows the positive and negative effects that would occur should the euro depreciate or appreciate by 5 % in relation to the relevant currencies (GBP, HRK and PLN), with all other variables remaining constant. Currency translation gains and losses on trade receivables and payables denominated in foreign currencies have an impact on the consolidated profit or loss, which is reflected analogously in equity. Aside from these currency translation effects, there are no further effects on equity arising from financial instruments.

A potential strengthening (weakening) of the euro against material currencies used by Dermapharm as at 31 December of the respective year would have affected the measurement of financial position by the amounts shown below. This analysis assumes that all other variables, particularly interest rates, remain constant and ignores any impact of forecast sales and purchases.

31 December 2019	Balance in foreign currency	EUR thousand	+5 % impact on income statement	-5 % impact on income statement
GBP	(1,409)	(1,650)	79	(87)
HRK	(118,090)	(15,827)	754	(833)
PLN	(4,911)	(1,153)	55	(61)

31 December 2018	Balance in foreign currency	EUR thousand	+5 % impact on income statement	-5 % impact on income statement
GBP	(331)	(367)	17	(19)
HRK	(118,153)	(15,895)	757	(837)
PLN	(3,456)	(802)	38	(42)

The Group's risk from exchange rate fluctuations for all other currencies not presented here was immaterial.

Interest rate risk

Interest rate risk includes the effect of positive and negative changes to interest rates on profit, equity, or cash flows in current and future reporting periods. Dermapharm is exposed to interest rate risks from financial instruments mainly in connection with financial liabilities.

The table below depicts the change in income or expenses from interest rate swaps, which would result from a decrease or increase of the EURIBOR by 100 basis points:

EUR thousand	31 December 2019	31 December 2018
Assumed change in interest rate		
- 100 basis points	(809)	(4,814)*
Current fair value of derivatives	(285)	(741)
+ 100 basis points	208	397*

* Prior-year figures restated because the prior-year sensitivity analyses were conducted on the basis of a change in the EURIBOR by +/- 50 basis points.

The table below shows the change in interest expenses for variable rate loans, which would result from a decrease or increase of the EURIBOR by 100 basis points:

EUR thousand	31 December 2019	31 December 2018
Assumed change in interest rate		
- 100 basis points	5,090	747*
Current interest expense	5,175	3,492
+ 100 basis points	9,544	6,278*

* Prior-year figures restated because the prior-year sensitivity analyses were conducted on the basis of a change in the EURIBOR by +/- 50 basis points.

b) Credit risk

Credit risk is the risk of financial loss arising from a counterparty's inability to repay or service debt in accordance with the contractual terms. Credit risk includes both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risk.

Credit risk is managed at the Group level, except for credit risk as it pertains to trade receivables. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

The extent of the maximum credit risk for Dermapharm corresponds to the sum of trade receivables, other financial assets and cash and cash equivalents. In the event of a default on the part of a counterparty, the maximum credit risk for all classes of financial assets is equal to the respective carrying amount at the reporting date. No material concentration risks for the Group existed during the current or prior periods.

The Group is exposed to potential credit risks primarily in relation to trade receivables from customers. As in the past, there was no need to recognise any major valuation allowances in respect of trade receivables during the current period. Credit risks from financial transactions are managed centrally by the Finance department. To minimise risks, financial transactions are conducted only within short-term periods and with banks and other partners that preferably have investment-grade ratings.

In addition, there exists a credit risk in respect of cash and cash equivalents in the event that financial institutions were no longer able to satisfy their obligations. This credit risk is limited by investing only with various banking institutions with good ratings.

c) Liquidity risk

Liquidity risk includes the risk that Dermapharm will not be in the position to satisfy its assumed financial liabilities as they fall due. For this reason, a significant aim of liquidity management is to ensure that payment is possible at all times. Management continuously monitors the risk of liquidity shortfalls by using the liquidity planning capabilities of its ERP system. This system tracks payments into and out of the financial assets and financial liabilities as well as expected cash flows from business activities.

The Group's aim is to maintain a balance between continuously covering the required financial resources and ensuring flexibility by using bank credit facilities. Any remaining short-term liquidity requirement peaks are balanced out by using those credit facilities.

Dermapharm has access to the following lines of credit:

EUR thousand	31 December 2019	31 December 2018
Aggregated lines of credit	151,330	89,175
Available lines of credit	145,367	83,093
Number of banks	16	16

The table below shows the Group's financial liabilities according to maturity, based on the remaining maturity at the respective reporting dates and in relation to the contractually agreed, non-discounted cash flows. Financial liabilities payable at any time are allocated to the earliest possible time of payment. Variable interest payments from the financial instruments, where applicable, were calculated on the basis of respective forward rates as at the reporting date.

EUR thousand	Due within 1 year	Due between 1-5 years	Due after 5 years
31 December 2019 **Expected cash flows from financial liabilities**			
Interest	6,423	21,659	2,162
Repayment of principal	8,214	465,747	70,309
Expected cash flows from trade payables	35,355	-	-
Expected cash flows from other financial liabilities	7,079	-	-
31 December 2018 **Expected cash flows from financial liabilities**			
Interest	2,720	6,382	-
Repayment of principal	60,885	161,690	-
Expected cash flows from trade payables	28,181	-	-
Expected cash flows from other financial liabilities	6	-	-

Proceeds and expenses from derivatives were expected as follows:

EUR thousand	Due within 1 year	Due between 1-5 years	Due after 5 years
31 December 2019 Expected cash flows from derivatives			
Derivative contracts - proceeds	1,037	-	-
Derivative contracts - expenses	(1,152)	(172)	-
31 December 2018 Expected cash flows from derivatives			
Derivative contracts - proceeds	1,697	939	-
Derivative contracts - expenses	(1,798)	(1,043)	-

7.2 Disclosures on capital management

Dermapharm's capital management objectives are primarily to maintain and ensure an optimal capital structure to continue financing the growth plan and to manage the Company's value over the long term. Dermapharm's optimal capital structure is essentially defined by whether the financial covenants agreed with creditors can be maintained. Further focus is placed on the reduction of capital costs, the generation of liquid funds and the active management of the net working assets.

In accordance with the financial covenants, Dermapharm manages its capital structure based on the KPIs net debt, the ratio between net debt and EBITDA and based on the equity ratio (as a percentage). Where necessary, Dermapharm makes adjustments, taking into account changes in the general economic environment.

Net indebtedness is defined as the total of current and non-current financial liabilities and other current and non-current financial liabilities less cash and cash equivalents. Net indebtedness as at 31 December 2019 was EUR 465,418 thousand (31 December 2018: EUR 95,200 thousand). EBITDA is defined as operating earnings plus depreciation, amortisation and impairment and shares of the profit or loss of companies accounted for using the equity method.

At 31 December 2019, the net indebtedness to EBITDA ratio was 2.8 (31 December 2018: 0.7).

The equity ratio changed as follows:

EUR thousand	31 December 2019	31 December 2018
Equity attributable to owners of parent	278,649	252,449
Total equity and liabilities	1,044,871	704,581
Equity ratio (%)	**27 %**	**36 %**

In financial years 2019 and 2018, the Group did not breach the financial covenants.

7.3 Additional disclosures on financial instruments

The table below shows the carrying amounts of all financial instruments reported in the consolidated statement of financial position and how the assets and liabilities or parts of the totals of each category are classified into the categories in accordance with IFRS 9.

It also depicts the fair values of the financial instruments and the IFRS 13 fair value hierarchy level applied to obtain the value. Further information on fair value measurement is contained in note 2.26.

31 December 2019		Reconciliation of items of the statement of financial position to the measurement categories of IFRS 9					
EUR thousand	Carrying amount at 31 December 2019	Amortised cost	Fair value through profit or loss	Fair value through other compre-hensive income	Measure-ment in accordance with IFRS 16	Fair value as at 31 December 2019	Fair value level
Financial assets							
Other non-current financial assets	1,562	691	871	-	-	1,562	3
Equity investments	395	395	-	-	-	395	-
Trade receivables	48,879	48,879	-	-	-	48,879	-
Other current financial assets	6,040	4,999	1,041	-	-	6,040	2
Cash and cash equiva-lents	114,956	114,956	-	-	-	114,956	-
Financial liabilities							
Non-current financial liabilities							
of which bank loans	*414,583*	*414,583*	-	-	-	*427,659*	*2*
of which promissory note loans	*119,009*	*119,009*	-	-	-	*121,351*	*2*
of which lease liabilities	*9,755*	-	-	-	*9,755*	*12,614*	*2*
Other non-current financial liabilities	18,684	-	285	18,399*	-	18,684	2/3
Current financial liabilities							
of which bank loans	*2,251*	*2,251*	-	-	-	*2,251*	-
of which promissory note loans	-	-	-	-	-	-	-
of which bank overdrafts	*5,963*	*5,963*	-	-	-	*5,963*	-
of which lease liabilities	*3,049*	-	-	-	*3,049*	*3,049*	-
Trade payables	35,355	35,355	-	-	-	35,355	-
Other current financial liabilities	7,079	6,038	1,041	-	-	7,079	2

* Liability from the put option on the remaining shares in Fitvia GmbH; see also note 2.16.

31 December 2018	Reconciliation of items of the statement of financial position to the measurement categories of IFRS 9						
EUR thousand	Carrying amount at 31 December 2018	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Measurement in accordance with IAS 17	Fair value as at 31 December 2018	Fair value level
Financial assets							
Other non-current financial assets	3,706	1,078	2,628	-	-	3,706	2
Equity investments	382	382	-	-	-	382	-
Trade receivables	34,124	34,124	-	-	-	34,124	-
Other current financial assets	1,365	1,365	-	-	-	1,365	2
Cash and cash equivalents	212,520	212,520	-	-	-	212,520	-
Financial liabilities							
Non-current financial liabilities							
of which bank loans	*204,672*	*204,672*	-	-	-	*209,762*	-
of which promissory note loans	*27,879*	*27,879*	-	-	-	*29,013*	*2*
of which lease liabilities	*192*	-	-	-	*192*	*192*	*2*
Other non-current financial liabilities	3,395	-	3,395	-	-	-	2/3
Current financial liabilities							
of which bank loans	*11,840*	*11,840*	-	-	-	*13,393*	*2*
of which promissory note loans	*53,494*	*53,494*	-	-	-	*55,001*	*2*
of which bank overdrafts	*6,082*	*6,082*	-	-	-	*6,082*	-
of which lease liabilities	*161*	-	-	-	*161*	*161*	-
Trade payables	28,181	28,181	-	-	-	28,181	-
Other current financial liabilities	6	6	-	-	-	6	2

Due to the short maturity of the cash and cash equivalents, trade receivables and payables as well as other current financial assets and other current financial liabilities, it is assumed that the carrying amounts of these items were reasonable approximations of their fair values.

The fair values of the financial instruments allocated to Level 3 changed as follows:

EUR thousand	Financial assets measured at fair value	Financial liabilities measured at fair value
As at 1 January 2019	**0**	**564**
Additions	939	13,759
Disposals	-	(743)
Change in fair value recognised through profit or loss	(68)	179
Change in fair value recognised through other comprehensive income	-	4,640
As at 31 December 2019	**871**	**18,399**

There were no reclassifications within the fair value hierarchy in the financial year.

The table below depicts the net result from financial instruments for the period ended 31 December 2019 and 2018.

EUR thousand	2019	2018
Interest income	**2,058**	**1,838**
from financial assets measured at (amortised) cost	73	50
from derivatives measured at fair value through profit or loss	1,985	1,788
Interest expense	**(9,753)**	**(6,020)**
from financial liabilities measured at (amortised) cost	(7,713)	(4,193)
from derivatives measured at fair value through profit or loss	(2,040)	(1,827)
Amortisation and impairment of financial assets measured at (amortised) cost	**(232)**	**(20)**
Net result from subsequent measurement through profit or loss	**414**	**(73)**
Gains from subsequent measurement through profit or loss of derivatives	593	2,119
Losses from subsequent measurement through profit or loss of derivatives	(179)	(2,192)
Foreign exchange gains on financial instruments	**2,712**	**263**
Foreign exchange losses on financial instruments	**(3,635)**	**(1,054)**
Net result from financial instruments (in accordance with IFRS 9)	**(8,436)**	**(5,065)**

8. Other disclosures

8.1 Notes to the consolidated statement of cash flows

The consolidated statement of cash flows was prepared in accordance with IAS 7 "Statements of Cash Flows" and shows the changes in the Group's cash and cash equivalents during the course of the reporting period due to cash inflows and outflows.

Under IAS 7, cash flows are disclosed separately based on origin and classified as cash flows from either operating, investing or financing activities. The cash inflows and outflows from operating activities are derived indirectly starting from the Group's profit or loss for the year. Cash inflows and outflows from investing and financing activities are derived directly. The funds in the consolidated statement of cash flows correspond to the value of cash and cash equivalents and bank overdrafts in the consolidated statement of financial position. Cash and cash equivalents include the freely available cash deposits and deposits with financial institutions.

The first line item of the statement of cash flows was changed from earnings after tax to earnings before taxes to improve the presentation. For reasons of comparability, the prior-year structure was also adjusted: In financial year 2018, earnings before taxes – the first line item of the statement of cash flows under the new structure – amounted to EUR 104,237 thousand, whereas EUR 75,226 thousand had been reported in earnings after taxes under the previous structure. The changes in net cash flows from

operating activities relate to working capital (assets) amounting to EUR 47,720 thousand (previous structure: EUR 47,646 thousand), working capital (liabilities) amounting to EUR (2,583) thousand (previous structure: EUR 27,298 thousand), other non-cash items amounting to EUR 662 thousand (previous structure: EUR 664 thousand) and changes in deferred taxes, which are reported as other non-cash items under the new structure (previous structure: EUR (796) thousand). The other line items of the statement of cash flows remained unchanged.

Payments for business combinations, less cash of EUR 277,317 thousand, which are reported under cash flows from investing activities, resulted primarily from the acquisitions of Euromed and Fitvia. EUR 262,056 thousand was paid to acquire Euromed. An outflow of EUR 253,621 thousand resulted, taking into account the EUR 8,435 thousand in cash acquired. EUR 26,320 thousand in cash was used to acquire the shares in Fitvia. An outflow of EUR 23,707 thousand resulted, taking into account the EUR 2,613 thousand in cash acquired. For further information on these acquisitions, please refer to note 2.7.

The cash and non-cash changes in financial liabilities, the inflows and outflows for which are presented under cash flows from financing activities in the statement of cash flows, can be broken down as follows for the 2019 financial year:

EUR thousand	2019	2018
Financial liabilities as at 1 January	**304,319**	**254,747**
Proceeds from borrowings	460,776	155,000
Transaction costs in connection with borrowings	(788)	-
Repayments of borrowings	(224,084)	(98,101)
Payments of lease liabilities	(4,101)	(177)
Total changes from cash flows from financing activities	**231,804**	**56,722**
Effect of exchange rate changes	1	(17)
Changes in bank overdrafts	(118)	(7,408)
Lease liabilities	12,932	275
Changes in the composition of the Group	5,052	-
Other changes	621	-
Financial liabilities as at 31 December	**554,611**	**304,319**

8.2 Other financial obligations and contingent liabilities

Litigation

In the course of its business activities, the Group is regularly exposed to numerous legal risks, particularly in connection with litigation relating to the areas of product liability, competition, intellectual property disputes and tax matters. The following legal dispute represents the only material proceedings in which the Group currently is or was involved during the past twelve months:

On 27 December 2011, Dermapharm filed an action against UniCredit Bank AG ("UniCredit") before the Regional Court (Landgericht) of Munich, seeking rescission of certain currency-related swap transactions entered into with UniCredit between 2008 and 2010. As at 31 December 2019, the amount in dispute was EUR 1,119 thousand. Dermapharm had entered into these transactions as part of its interest rate hedging and optimisation strategy and is of the opinion that UniCredit breached its obligation to properly advise Dermapharm on the risks associated with these transactions. Given that Dermapharm is acting as claimant, this action generally only provides upside to the Group. The action was dismissed in the first two instances on 6 July 2016. The Group has filed an appeal against denial of leave to appeal with the German Federal Supreme Court. This appeal was granted and the action was referred back to the Higher Regional Court. At present, we expect the action to be re-opened and decided in the second quarter of 2020. On 21 December 2015, Dermapharm AG and Themis Beteiligungs-AG concluded an indemnity agreement pursuant to which the Group assigned its claims against UniCredit to Themis Beteiligungs-AG. In return, Themis Beteiligungs-AG agreed to assume payments under the cross-currency swaps from Dermapharm to UniCredit along with legal fees in connection with the Munich Regional Court unless covered under a provision recognised by Dermapharm AG. Accordingly, these contracts are not expected to result in any expenses. In financial year 2019, all claims levelled by UniCredit against Dermapharm AG were passed on to Themis Beteiligungs-AG.

In addition to the aforementioned litigation, the Group is involved in other court proceedings. However, none of these proceedings have a material effect on the Group's financial position and each of them are within the scope of the Group's ordinary activities.

Apart from the proceedings described above, the Group is not aware of any administrative, court or arbitration proceedings (whether pending or threatened) which may have, or have had, a material effect on its financial position or profitability.

Guarantees

There were no material guarantees as at 31 December 2019 or 31 December 2018.

Contingent liabilities

There were no material contingent liabilities as at 31 December 2019 or 31 December 2018.

Purchase commitments

At 31 December 2019, the Group had purchase commitments relating to inventories of EUR 116,492 thousand (31 December 2018: EUR 78,028 thousand).

9. Related party disclosures

In accordance with IAS 24, related parties are persons or companies, other than entities which are already included in the consolidated financial statements, which can be materially influenced by or are able to influence Dermapharm.

In principle, all transactions are settled with related parties at market conditions and all outstanding balances with related parties are priced on an arm's length basis. Key management personnel include members of the Board of Management and the Supervisory Board. Significant shareholders are those who own or are the beneficial owners of more than 10 % of Dermapharm's voting shares.

Transactions with related parties for the financial years ended 31 December 2019 and 31 December 2018 between Dermapharm and significant shareholders and other related parties are summarised below.

a) Material transactions

Related party transactions (persons)

EUR thousand	2019	2018
Marketing and advertising	1,099	1,200
Remuneration at Dermapharm AG, Hünenberg, Switzerland	56	110
Total	**1,155**	**1,310**

Related party transactions (entities)

	Transactions in		Open receivables as at 31 December		Open liabilities as at 31 December	
EUR thousand	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Transfer of goods						
Associates	522	563	-	-	-	-
Non-consolidated companies	1,678	930	1,029	150	-	-
Consulting and services						
Parent (Themis Beteiligungs-AG) of Dermapharm	322	1,035	-	14	-	-
Associates	-	2	-	-	-	-
Non-consolidated companies	2,983	1,028	-	2	21	4
Offsetting of current expenses						
Parent (Themis Beteiligungs-AG) of Dermapharm	1,905	71,272	1,041	2,628	-	-
Associates	1,652	1,474	1,652	-	-	-
Consolidated tax group						
Parent (Themis Beteiligungs-AG) of Dermapharm	-	5,338	-	-	-	-
Miscellaneous						
Associates	1,250	306	1,250	93	-	-
Non-consolidated companies	15		15	-	-	-
Total	**10,327**	**81,948**	**4,987**	**2,887**	**21**	**4**

The decline in related party transactions in connection with the offsetting of current expenses is attributable primarily to the expiry of the profit and loss transfer agreement and the disposal of shares in non-consolidated companies in the previous year.

b) Remuneration of key management personnel

The total remuneration paid to the Board of Management and the Supervisory Board is described in detail in the Group management report, including additional disclosures relating to the remuneration system.

The remuneration of members of the Board of Management and the Supervisory Board, who represent the key management personnel, is presented as follows in accordance with IAS 24:

EUR thousand	**2019**	**2018**
Short-term benefits	3,151	2,117
Long-term benefits	997	1,200
Total	**4,148**	**3,317**

The members of key management receive remuneration solely due to their function as a person in a key position.

10. Disclosures on the Board of Management and the Supervisory Board

The Company's corporate boards are composed as follows:

Members of the Board of Management

On 31 July 2019, Chief Marketing Officer Mr Stefan Grieving left the Company for health reasons. He was replaced by Dr Jürgen Ott on 1 October 2019.

Name	Member since	Appointed until	Position	Profession
Dr Hans-Georg Feldmeier	Aug 2017	2023	Chief Executive Officer	Pharmacist
Stefan Hümer	Aug 2017	2020	Chief Financial Officer	Merchant
Stefan Grieving	Aug 2017	2019	Chief Marketing Officer	Merchant
Dr Jürgen Ott	Oct 2019	2022	Chief Marketing Officer	Chemist
Karin Samusch	Aug 2017	2023	Chief Business Development Officer	Merchant

Members of the Supervisory Board

Name	Member since	Appointed until	Position	Profession
Wilhelm Beier	Aug 2017	2022	Chairman of the Supervisory Board	Merchant
Dr Erwin Kern	Aug 2017	2022	Deputy Chairman of the Supervisory Board	Merchant
Lothar Lanz	Jan 2018	2022	Member of the Supervisory Board	Merchant

In the financial years presented, there were no pension obligations due to current or former members of key management. However, the Supervisory Board members are covered by a Group D&O insurance policy.

11. Auditor's fee and services

At the Annual General Meeting on 4 June 2019, the shareholders of Dermapharm Holding SE elected Warth & Klein Grant Thornton AG to audit the annual financial statements. Warth & Klein Grant Thornton AG's fees were broken down as follows:

EUR thousand	2019	2018
Audit services	788	617
Other confirmation services	-	80
Tax consultancy services	-	-
Miscellaneous services	5	-
Total	**793**	**697**

The audit services related to the audit of the consolidated financial statements and the audit of the annual financial statements and dependent company reports of Dermapharm Holding SE and its subsidiaries at the end of the financial year as well as the audit review of the interim consolidated financial statements as at 30 June 2019.

12. Events after the reporting period

Events after the reporting date with a material or potentially material effect on the Group's financial position, financial performance and cash flows:

Acquisition of Allergopharma GmbH & Co. KG

Under the purchase agreement dated 19 February 2020, Dermapharm acquired Allergopharma GmbH & Co. KG, which is registered in Reinbek near Hamburg and specialised in allergy desensitisation products, via its subsidiary Dermapharm Beteiligungs GmbH, which was newly formed in connection with this acquisition. Allergopharma had previously been a subsidiary of Merck KGaA, Darmstadt.

Allergopharma has more than 50 years' of experience in researching and treating allergies. Allergopharma specialises in subcutaneous hyposensitisation and is one of Europe's market leaders in this field, offering a wide product range with high-dosage, hypoallergenic preparations, known as allergoids. The portfolio also includes a large selection of allergens for diagnostic testing. Allergopharma markets its products in 18 countries. The company uses its own sales force and external partners to market its products abroad.

The antitrust authorities have since granted their approval. The deal was closed on 31 March 2020. However, this did not include the sales unit in China, as it generally takes longer to obtain approval from the Chinese authorities.

The transaction constituted a business combination as defined under IFRS 3. A purchase price allocation as required in accordance with IFRS 3 as a result of the acquisition will be necessary in 2020 in order to satisfy the conditions set out in the purchase agreement. It is not yet possible to quantify the preliminary agreed purchase price or the fair values of the assets acquired and liabilities assumed because the transaction had not yet been closed and the purchase price allocation had not yet been completed as at the date on which these consolidated financial statements were approved for publication.

COVID-19 pandemic

Dermapharm's production and sales activities focus on the European market. The Group's main manufacturing facility for the development and production of as well as logistics associated with branded pharmaceuticals is located at its subsidiary mibe GmbH Arzneimittel in Brehna near Leipzig. The Company is continuously monitoring its supply of raw materials to ensure that its production operations run smoothly. As at the beginning of April 2020, Dermapharm has not been affected by any supply bottlenecks. The Dermapharm Group's main production facilities have already been classified as critical national infrastructure in accordance with § 6 of the Federal Office for Informational Security's Critical Infrastructure Regulation (BSI-Kritisverordnung) and will therefore maintain production operations at all times, even in times of crisis. As at the date on which these consolidated financial statements were approved for publication, Dermapharm does not expect the COVID-19 pandemic to have any specific adverse economic effect on its business.

Board of Management

Due to personal reasons, Mr Stefan Hümer is resigning as Dermapharm's Chief Financial Officer at the end of his term on 31 July 2020. Ms Hilde Neumeyer, Head of Group Accounting, will succeed him as CFO on 1 July 2020.

Grünwald, 6 April 2020

The Management Board

Dr Hans-Georg Feldmeier	Stefan Hümer	Dr Jürgen Ott	Karin Samusch
Chief Executive Officer	Chief Financial Officer	Chief Marketing Officer	Chief Business Development Officer

DECLARATION OF THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations, and the Group management report, which is combined with the management report of Dermapharm Holding SE, presents the Group's business performance, including the financial performance and the financial position, in a manner that gives a true and fair view and describes the principal opportunities and risks of the company's anticipated development.

Grünwald, 6 April 2020

Dr Hans-Georg Feldmeier	Stefan Hümer	Dr Jürgen Ott	Karin Samusch
Chief Executive Officer	Chief Financial Officer	Chief Marketing Officer	Chief Business Development Officer

INDEPENDENT AUDITOR'S REPORT

To Dermapharm Holding SE, Grünwald

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of Dermapharm Holding SE, Grünwald, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January 2019 to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report which is combined with the management report (referred to subsequently as "combined management report") of Dermapharm Holding SE for the financial year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the Corporate Governance Statement pursuant to Section 289f and Section 315d HGB [Handelsgesetzbuch: German Commercial Code] included in Section 6.1 of the combined management report nor the nonfinancial consolidated report referred to in section 6.2 of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019 and of its financial performance for the financial year from 1 January 2019 to 31 December 2019, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the above-mentioned Corporate Governance Statement nor the nonfinancial consolidated report referred to in the combined management report.

Pursuant to section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2019 to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters in our view:

1. Capitalisation of development costs
2. Identification and measurement of the assets and liabilities transferred in the context of the Euromed and Fitvia acquisitions and related note disclosures, as well as the measurement of the call and put option in relation to the Fitvia acquisition
3. Impairment testing of the goodwill and of the capitalized development costs with (still) indefinite useful lives

Our presentation of these key audit matters has been structured as follows:

1. Financial statement risk
2. Audit approach
3. Reference to related disclosures

1. Capitalisation of development costs

1. Financial Statement Risk

In the consolidated financial statements of Dermapharm Holding SE for the year ended 31 December 2019, capitalised development costs for the development of new pharmaceutical products and authorisations amounting to EUR 52.0 million are reported in consolidated statement of financial position under the line item "Intangible assets", of which EUR 13.2 million were capitalized in the financial year 2019. The development costs are capitalised subject to the assessment by the executive directors of Dermapharm Holding SE as to whether the capitalisation requirements of development costs of IAS 38 have been met. The assessment required in this context whether it is likely that future economic benefits are expected for the Dermapharm Group was based on internal planning calculations. The capitalised development costs are determined by the costs directly attributable to the development project and include personnel costs for employees involved in the development process, and an appropriate part of the directly attributable overhead costs and costs for external resources.

Whether and to what extent it is necessary or permitted to capitalise the development costs incurred in the financial year 2019 highly depends on the assessment of the executive directors with regard to the fulfillment of the requirements of IAS 38 and is therefore associated with a high degree of estimation uncertainty. In consideration of the foregoing and of the importance of capitalised development costs for the assets, liabilities and financial performance of the Dermapharm Group, this matter was of particular significance in our audit.

2. Audit Approach

Within our audit, we obtained an understanding of the processes implemented for the capitalisation of the development costs and analysed potential risks of errors. In addition, we assessed the controls implemented for the capitalisation of development costs. We assessed development projects selected on the basis of quantitative and qualitative criteria as to whether the requirements set out in IAS 38 for the capitalisation of development costs have been met. For this purpose we critically assessed the underlying assumption of the capitalisation that future economic benefits are expected for the Dermapharm Group on the basis of the planning calculations submitted to us by the executive directors of Dermapharm Holding SE. We assessed the appropriateness of key planning assumptions in the light of current and expected market conditions and of the explanations, we obtained from interviews of the executive directors and one more selected employee. For the selected development projects we furthermore convinced ourselves that the capitalised development costs are directly attributable costs which qualify for capitalisation under IAS 38 and an appropriate part of the directly attributable overheadsand costs for external resources.

3. Reference to Related Disclosures

The disclosures of Dermapharm Holding SE relating to capitalised development costs are shown in sections "2.9 Intangible assets – Capitalised development costs", "3. Estimates and judgements – Development costs" and "4.1 Intangible assets" of the notes to the consolidated financial statements.

2. Identification and measurement of the assets and liabilities transferred in the context of the Euromed and Fitvia acquisitions and related note disclosures, and measurement of the call and put option relation to the Fitvia acquisition

1. Financial Statement Risk

On 3 January 2019, Dermapharm AG, a direct subsidiary of Dermapharm Holding SE, acquired all shares and in Euromed Botanicals S.L., Barcelona, Spain, and its subsidiaries (jointly referred to as "Euromed"). Furthermore, under a purchase contract dated 6 June 2019, Dermapharm AG acquired a majority interest of 70.0% in Fitvia GmbH, Wiesbaden, and its subsidiaries (jointly referred to as "Fitvia"). The German Federal Trade Commission agreed on 5 July 2019. The acquisition of Fitvia by Dermapharm AG included the acquisition of a call option for the acquisition of the remaining 30.0 % of the shares in Fitvia and the disposal of a put option for the sale of 30.0 % of the shares in Fitvia to the seller. These companies were included in the consolidated financial statements for the first time as at 1 January 2019 (Euromed) and 1 February 2019 (Fitvia).

These acquisition transactions were completed in the financial year and accounted for as Business Combinations using the acquisition method as defined in IFRS 3. The assets and liabilities identified in the purchase price allocation process were fully recognised at their acquisition-date fair values. The synthetic liability from the put option with regard to Fitvia amounted to EUR 13.8 million as of date of initial consolidation, the call option was measured in the amount of EUR 8.4 million. The first-time consolidation resulted in goodwill of Euromed in the amount of EUR 117.4 million and of Fitvia in the amount of EUR 30.4 million.

The identification and measurement of acquired assets – in particular intangible assets such as brands and customer relationships – and liabilities is often based on discretionary assumptions of the executive directors and is therefore subject to high estimation uncertainty. Particular risks for the financial statements are also attributable to the complex assumption-based measurement methods used to determine the fair values of intangible assets in particular. In addition, the measurement of the call and put option with regard to the shares in Fitvia is subject to a high amount of professional judgement exercised by the executive directors. In consideration of the foregoing and due to the significance of the acquisitions for the Dermapharm Group, the aforementioned elements of the recognition in the financial statements of the Euromed and Fitvia acquisitions completed in the financial year were of particular significance in our audit.

2. Audit Approach

Within our audit, we obtained an understanding of the processes in place for the identification and measurement of acquired assets and liabilities, the related note disclosures, and measurement of the call and put option and analysed possible risks of errors. As part of our audit of the presentation of the completed acquisitions, we also evaluated the competence, capability and objectivity of the external expert engaged to carry out the purchase price allocation and the measurement of the call and put option. With the involvement of our internal valuation experts we evaluated the appropriateness of the identification and valuation methods employed by the expert in the context of the general accounting policies and assessed the content of the applied measurement assumptions and parameters. For example for intangible assets the fair value of which was determined using the Relief from Royalty Approach, hence we compared the royalty rates used by the expert with reference values from relevant databases. For selected valuations on the basis of planning calculations we examined the planning calculations provided to us as of valuation date for their arithmetical accuracyand assessed the planned future revenue and cost developments, among other things, on the basis of interviews of the executive directors and of the external expert engaged to prepare the purchase price allocation. With the involvement of our internal valuation experts we evaluated appropriateness of the measurement of the call and put option. In this regard, we evaluated the methodology applied in the measurement and analysed the underlying parameters. Where the calculation of a present value was relevant in the determination of the fair values in the abovementioned context, we recalculated the used capital costs and compared their underlying parameters with publicly available information.

We compared the identified assets and liabilities recognised in the consolidated statement of financial position and their fair values with the valuation reports of the external expert. Finally, we assessed whether the note disclosures relating to the Euromed and Fitvia acquisitions, including the put and call option entered within the course of the latter acquisition, have been presented appropriately and completely.

3. Reference to Related Disclosures

The disclosures of Dermapharm Holding SE are included in the sections "2.5 Consolidation principles and group of consolidated companies" and "2.7 Business acquisitions" of the notes to the consolidated financial statements.

3. Impairment testing of the goodwill and of the capitalised development costs with (still) indefinite useful lives

1. Financial Statement Risk

In the consolidated statement of financial position as at 31 December 2019, Dermapharm Holding SE recognised "Goodwill" in the amount of EUR 202.2 million and capitalised development costs in the amount of EUR 52.0 million under the line item "Intangible assets", of which EUR 36.1 million were not yet subject to planned depreciation as the use was not started yet.

Pursuant to IAS 36, an impairment test shall be performed for the goodwill and development costs not subject to planned depreciation; the impairment test was performed as of 30 September 2019. Impairment tests are performed at the level of the cash-generating units or at the level of the individual development projects. In this process the recoverable amounts of the individual cash-generating units or development projects are compared with the carrying amounts of each of the cash-generating units or development projects. The recoverable amount is determined by calculating the value in use which is based on the discounted cash flow forecasts of each of the cash-generating units or development projects. The cash flow forecasts for the impairment test of the goodwill are based on the budget planning of each of the cash-generating units as approved by the executive directors and the supervisory boards; the cash flow forecasts for the individual development projects are derived from the key indicators determined by the executive directors. For discounting, the discount rate is determined by using the weighted average discount rates of equivalent terms of the relevant cash generating units or development projects.

On the basis of the impairment test, Dermapharm Holding SE reported impairment losses for capitalised development costs amounting to EUR 0.5 million.

The result of the impairment tests is highly affected by the assessment of the future cash flows and the applied discount rate and is subject to considerable estimation uncertainty. Against this background and due to the complexity of the implementation of the applied valuation method, this matter was of particular significance in our audit.

2. Audit Approach

As part of our audit, we obtained an understanding of the processes in place for the calculation of the recoverable amount of cash generating units or development projects within the explained context and analysed possible risks of errors. In the course of our audit we evaluated the methodology applied in the impairment tests. In addition, we assessed the controls in place for the identification and calculation of possible impairments. We compared the underlying cash flow forecasts of determining the value in use of the goodwill with the budget planning as approved by the executive directors and the supervisory board. By interviewing the executive directors and a selected employee, we analysed the value-driving assumptions on a sample basis, which were used in budget planning and in determining the key indicators for the calculation of the values in use of the development projects, for their consistency and reasonableness. In our analysis, we have incorporated our understanding of the economic environment and the conditions as of reporting date or the expected conditions in the relevant markets. In addition, as part of our impairment test of the goodwill, we analysed the planning history by comparing the planning of the preceding years with the actual results of the financial years and by comparing the current planning with the prior year planning. In relation to the impairment test of the goodwill, we additionally evaluated the consistency in differentiating the cash-generating units.

We evaluated the respective calculation scheme for deriving the applied discount rates and verified the parameters included in the derivation of the discount rate with the involvement of our valuation experts. Furthermore, we analysed and assessed the consistent use of parameters and the consistent derivation of the discount rates in comparison with the preceding year.

We evaluated the sensitivity analyses performed by Dermapharm Holding SE for appropriateness.

3. Reference to Related Disclosures

The disclosures of Dermapharm Holding SE relating to impairment testing of goodwill and capitalised development costs are included in sections "2.11 Impairment on non-financial assets", "3. Estimates and judgements – Development costs" and "4.1 Intangible assets" of the notes to the consolidated financial statements.

Other Information

The executive directors or the supervisory board, as applicable, are responsible for the other information. The other information comprises:

- the Corporate Governance Statement pursuant to Section 289f and Section 315d HGB,
- the nonfinancial consolidated report according to section 315b HGB
- the affirmation of the legal representatives pursuant to section 297 paragraph 2 clause 4 and section 315 paragraph 1 clause 5 HGB, and
- the remaining parts of the annual report 2019 with the exception of the audited consolidated financial statements, the audited parts of the combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 4 June 2019. We were engaged by the supervisory board on 27 June 2019. We have been the group auditor of Dermapharm Holding SE, Grünwald, as capital market-oriented corporation in the meaning of section 264d HGB without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Anja Zweck.

Düsseldorf, 6. April 2020

Warth & Klein Grant Thornton AG

Wirtschaftsprüfungsgesellschaft

Prof. Dr Thomas Senger	Anja Zweck
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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