Dermapharm AG

Grünwald

IFRS Konzernabschluss und Konzernlagebericht

zum 31. Dezember 2016

Consolidated statement of financial position at 31 December 2016, 31 December 2015, 31 December 2014 and 1 January 2014

Assets in kEUR	**Notes**	**31 December 2016**	**31 December 2015**	**31 December 2014**	**1 January 2014**
NON-CURRENT ASSETS					
Intangible assets	4.1	70,025	67,966	71,713	70,315
Goodwill	4.1	17,033	16,444	21,553	26,743
Property, plant and equipment	4.2	53,357	53,406	56,547	57,352
Investments measured at equity	4.3	3,197	2,659	1,628	2,755
Investments	4.4	262	218	461	797
Other non-current financial assets	4.5	10,648	13,841	9,205	9,641
Deferred tax assets	4.17	218	28	952	472
Total non-current assets		**154,740**	**154,562**	**162,059**	**168,075**
CURRENT ASSETS					
Inventories	4.6	84,779	76,957	71,516	68,242
Trade accounts receivable	4.7	26,302	17,423	22,791	22,388
Other current financial assets	4.8	39,976	42,499	58,810	83,309
Other current assets	4.8	1,692	1,445	3,043	2,932
Income tax receivables - current	4.17	394	989	733	366
Cash and cash equivalents	4.9	3,816	2,791	11,645	4,665
Total current assets		**156,959**	**142,104**	**168,538**	**181,902**
TOTAL ASSETS		**311,699**	**296,666**	**330,597**	**349,977**

Equity and liabilities in kEUR	**Notes**	**31 December 2016**	**31 December 2015**	**31 December 2014**	**1 January 2014**
EQUITY					
Issued capital	4.10	1,342	1,342	1,342	1,342
Capital reserves	4.10	250	250	250	250
Retained earnings	4.10	56,274	39,457	28,616	33,911
Other reserves	4.10	(951)	53	(1,932)	-
Equity attributable to owners of the company		**56,915**	**41,102**	**28,276**	**35,503**
Non-controlling interests		3,891	3,340	5,734	5,858
Total equity		**60,806**	**44,442**	**34,010**	**41,361**
NON-CURRENT LIABILITIES					
Defined benefit obligations and other accrued employee benefits	4.11	13,250	12,080	12,445	9,744
Other provisions	4.12	-	-	78	64
Financial liabilities	4.13	96,896	151,073	161,530	100,831
Other non-current financial liabilities	4.15	10,464	14,050	9,946	10,491
Other non-current liabilities	4.15	11,495	13,257	15,551	18,826
Deferred tax liabilities	4.17	3,365	191	-	-
Total non-current liabilities		**135,470**	**190,651**	**199,550**	**139,956**
CURRENT LIABILITIES					
Other provisions	4.12	6,951	6,405	6,118	5,569
Financial liabilities	4.13	65,883	24,906	20,382	52,118
Trade accounts payable	4.14	24,526	18,139	27,449	25,378
Other current financial liabilities	4.16	4,303	2,389	30,605	77,596
Other current liabilities	4.16	10,983	8,221	11,443	7,525
Income tax liabilities	4.17	2,777	1,513	1,040	474
Total current liabilities		**115,423**	**61,573**	**97,037**	**168,660**
TOTAL EQUITY AND LIABILITIES		**311,699**	**296,666**	**330,597**	**349,977**

Consolidated statement of comprehensive income for the years ended 2016, 2015 and 2014

in kEUR	**Notes**	**2016**	**2015**	**2014**
Revenue	5.1	444,478	384,843	391,340
Increase/decrease in finished goods and work-in-process	4.6	1,007	2,887	8,300
Own work capitalised	4.1	8,301	7,983	8,465
Other operating income	5.2	9,916	9,944	6,221
Cost of material	4.6	(252,756)	(215,912)	(237,077)
Personnel expenses	5.3	(58,749)	(55,739)	(57,676)
Depreciation and amortisation	4.1, 4.2	(14,448)	(22,921)	(28,289)
Other operating expenses	5.4	(50,955)	(50,322)	(48,029)
Operating income		**86,794**	**60,763**	**43,255**
Result from investments measured at equity	4.3	1,464	985	863
Financial income	5.5	7,297	9,365	3,325
Financial expenses	5.5	(12,689)	(15,814)	(11,956)
Financial result		**(3,928)**	**(5,464)**	**(7,768)**
Earnings before taxes		**82,866**	**55,299**	**35,487**
Income taxes	4.17	(5,871)	(2,920)	(2,244)
Profit or (loss) for the period		**76,995**	**52,379**	**33,243**
Profit transfers due to profit transfer agreements		(59,931)	(39,480)	(33,006)
Profit or (loss) for the period after profit distribution		**17,064**	**12,899**	**237**
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:				
Actuarial gains/losses from remeasurement of defined benefit pension plans	4.11	(1,058)	481	(2,527)
Deferred taxes effect relating to items that will not be reclassified	4.17	104	(36)	283
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	2.5	(51)	1,539	313
Deferred taxes effect relating to items that may be reclassified		-	-	-
Other comprehensive income/(loss) for the period, net of tax		**(1,005)**	**1,984**	**(1,931)**
Total comprehensive income for the period, net of tax		**16,059**	**14,883**	**(1,694)**
Profit attributable to:				
Owners of the company		16,824	12,701	(61)
Non-controlling interests		240	198	298
		17,064	**12,899**	**237**
Total comprehensive income attributable to:				
Owners of the company		15,819	14,685	(1,992)
Non-controlling interests		240	198	298
		16,059	**14,883**	**(1,694)**

Consolidated statement of cash flows for the years ended 2016, 2015 and 2014

in kEUR	Notes	2016	2015	2014
Profit or loss for the period		17,064	12,899	237
Amortisation of intangible assets	4.1	9,211	9,886	13,499
Amortisation of intangible assets - impairment charges	4.1	-	5,109	9,863
Depreciation of property, plant and equipment	4.2	4,892	5,173	4,927
Increase /(decrease) in other accrued employee benefits	4.11	112	116	174
Increase /(decrease) in other non-current provisions	4.12	-	(78)	14
Increase /(decrease) in other current provisions	4.12	544	284	551
Other non-cash expenses /(income) items		39,501	33,735	40,357
(Increase) /decrease in inventories	4.6	(6,078)	(5,354)	(3,291)
(Increase) /decrease in trade receivables	4.7	(8,737)	5,423	(434)
(Increase) /decrease in other assets	4.5, 4.8	6,343	(19,003)	24,944
Increase /(decrease) in trade payables	4.14	5,510	(9,086)	2,079
Increase /(decrease) in other liabilities	4.15, 4.16	(180)	(7,141)	(46,806)
Share of profit of equity-accounted investees, net of tax	4.3	(1,464)	(985)	(863)
Net (gain) /loss on disposal of intangible assets	4.1	1,563	2,574	2,369
Net (gain) /loss on disposal of property, plant and equipment	4.2	(23)	30	111
Net (gain) /loss on sale of investments	2.4	-	100	-
Interest expenses /(income)	5.5	4,203	5,403	6,528
Increase /(decrease) in income tax payables and deferred tax liabilities	4.17	4,320	3,132	2,440
Income tax (paid) /received	4.17	(3)	(1,840)	(2,443)
Net cash flows from operating activities		**76,778**	**40,377**	**54,256**
Proceeds from sale of intangible assets	4.1	2,426	3,088	210
Proceeds from sale of property, plant and equipment	4.2	258	394	1,992
Proceeds from sale of investments	2.4	9	6,837	-
Acquisition of subsidiary, net of cash acquired	2.4	(1,420)	-	-
(Purchase) of intangible assets	4.1	(12,708)	(11,740)	(22,157)
(Purchase) of property, plant and equipment	4.2	(5,050)	(3,193)	(6,267)
Payments for investment in financial assets	2.4	(52)	(1,069)	-
Dividends from equity-accounted investees	4.3	926	963	1,990
Interest received	5.5	3,332	3,799	2,310
Net cash flows used in investing activities		**(12,279)**	**(921)**	**(21,922)**
Payment of profit transfers due to profit transfer agreements		(39,480)	(33,006)	(39,859)
Acquisition of non-controlling interests	2.4	(1,850)	(93)	(25)
Dividends (paid)	4.10	-	(90)	(5,633)
Proceeds from financial liabilities	4.13	6,082	9,787	74,328
(Repayment) of financial liabilities	4.13	(12,544)	(22,591)	(16,696)
Payment of finance lease liabilities	4.13	(601)	(418)	(273)
Interest (paid)	5.5	(7,535)	(9,202)	(8,838)
Net cash flows from / used in financing activities		**(55,928)**	**(55,613)**	**3,005**
Net increase in cash, cash equivalents and bank overdrafts	4.9, 6.1c	**8,571**	**(16,157)**	**35,339**
Cash, cash equivalents and bank overdrafts at the beginning of the period	4.9	(9,644)	6,483	(28,859)
Change in cash, cash equivalents and bank overdrafts due to foreign exchange differences		22	30	3
Cash, cash equivalents and bank overdrafts at the end of the period		**(1,051)**	**(9,644)**	**6,483**
Bank overdrafts at the beginning the period	4.13	(12,435)	(5,162)	(33,524)
Bank overdrafts at the end of the period	4.13	(4,867)	(12,435)	(5,162)
Cash and cash equivalents at the end of the period		**3,816**	**2,791**	**11,645**

Consolidated statement of changes in equity at 31 December 2016, 31 December 2015, 31 December 2014 and 1 January 2014

		Attributable to owners of the company						
in kEUR	**Notes**	**Issued capital**	**Capital reserves**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interests**	**Total Equity**
As at 1 January 2014	4.10	**1,342**	**250**	**33,911**	**-**	**35,503**	**5,858**	**41,361**
Profit for the period		-	-	(61)	-	(61)	298	237
Other comprehensive income/(loss) for the period		-	-	-	(1,931)	(1,931)	-	(1,931)
Total comprehensive income for the period		-	-	(61)	(1,931)	(1,992)	298	(1,694)
Issue of share capital		-	-	-	-	-	-	-
Reduction of statutory reserves		-	-	(24)	-	(24)	-	(24)
Acquisition of subsidiary with non-controlling interests		-	-	-	-	-	-	-
Acquisition of non-controlling interests		-	-	-	-	-	-	-
Dividends	4.10	-	-	(5,210)	-	(5,210)	(423)	(5,633)
As at 31 December 2014	4.10	**1,342**	**250**	**28,616**	**(1,931)**	**28,277**	**5,733**	**34,010**
As at 1 January 2015	4.10	**1,342**	**250**	**28,616**	**(1,931)**	**28,277**	**5,733**	**34,010**
Profit for the period		-	-	12,701	-	12,701	198	12,899
Other comprehensive income/(loss) for the period		-	-	-	1,984	1,984	-	1,984
Total comprehensive income for the period		-	-	12,701	1,984	14,685	198	14,883
Issue of share capital		-	-	-	-	-	-	-
Divestiture of subsidiary	2.4	-	-	-	-	-	(2,409)	(2,409)
Acquisition of subsidiary with non-controlling interests		-	-	-	-	-	-	-
Acquisition of non-controlling interests without change in control	2.4	-	-	(1,770)	-	(1,770)	(182)	(1,952)
Dividends	4.10	-	-	(90)	-	(90)	-	(90)
As at 31 December 2015	4.10	**1,342**	**250**	**39,457**	**53**	**41,102**	**3,340**	**44,442**
As at 1 January 2016	4.10	**1,342**	**250**	**39,457**	**53**	**41,102**	**3,340**	**44,442**
Profit for the period		-	-	16,824	-	16,824	240	17,064
Other comprehensive income/(loss) for the period		-	-	-	(1,005)	(1,005)	-	(1,005)
Total comprehensive income for the period		-	-	16,824	(1,005)	15,819	240	16,059
Issue of share capital		-	-	-	-	-	-	-
Reduction of statutory reserves		-	-	(7)	-	(7)	-	(7)
Acquisition of subsidiary with non-controlling interests	2.4	-	-	-	-	-	283	283
Acquisition of non-controlling interests without change in control	2.4	-	-	-	-	-	29	29
Dividends		-	-	-	-	-	-	-
As at 31 December 2016	4.10	**1,342**	**250**	**56,274**	**(952)**	**56,914**	**3,892**	**60,806**

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Notes to the consolidated financial statements of Dermapharm AG

1. General

1.1 Corporate information

Dermapharm AG (hereafter referred to as the “Company” or “Dermapharm”) as the parent company of the Dermapharm Group (hereafter referred to as “Group”) based at Lil-Dagover-Ring 7, Grünwald, Germany, is an international corporation mainly active in the healthcare and pharmaceuticals business in the GSA region, especially in generics, high-quality dermatological and allergic medical products.

Dermapharm is a leading independent specialty pharmaceuticals company in the German market that applies formulation and development expertise to the development, manufacture and marketing of a broad assortment of patent-free branded pharmaceuticals in niche markets, holding approximately 900 marketing authorisations for more than 200 active ingredients. Dermapharm also offers a growing portfolio of other healthcare products such as cosmetics, food supplements and dietary products. The company operates primarily in Germany, has subsidiaries in Austria and Switzerland and has presences in Eastern Europe (Croatia, Poland and Ukraine).

The company and the domestic and international subsidiaries concentrate on the development, licensing, manufacture and sale of products using off-patent pharmaceutical active ingredients in the healthcare and in particular the pharmaceutical industry. The core products are generics, branded generics, non-prescription natural remedies, OTC products and parallel-imported original medicines.

Dermapharm AG is a wholly owned subsidiary of Themis Beteiligungs AG. Themis Beteiligungs AG publishes exempting consolidated financial statements in accordance with § 291 HGB. Consequently, these financial statements were voluntarily prepared in accordance with IFRS.

The consolidated financial statements were authorised by the Management Board by resolution dated 29 December 2017.

1.2 First Time Adoption of IFRS

These financial statements for the year ended 31 December 2016 are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with the German Commercial Code (HGB).

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2016, together with the comparative period data for the years ended 31 December 2015 and 31 December 2014, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2014, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its local GAAP financial statements, including the statement of financial position as at 1 January 2014 and the financial statements for the years ended 31 December 2014, 2015 and 2016. IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

<u>The Group has applied the following exemptions:</u>

- IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2014. Use of this exemption means that the local GAAP carrying amount of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the local GAAP carrying amount of goodwill must be reported in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2014.

- The Group has not applied IAS 21, the Effects of Changes in Foreign Exchange Rates retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur. Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2014.

- The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated borrowing costs capitalised under local GAAP for qualifying assets prior to the date of transition to IFRS.

<u>Estimates</u>

The estimates at 1 January 2014 and at 31 December 2014, 2015 and 2016 are consistent with those made for the same dates in accordance with local GAAP (after adjustments to reflect any differences in accounting policies) apart from the following item:

- Pensions and other post-employment benefits

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions as at 1 January 2014, the date of transition to IFRS, and as at 31 December 2014, 2015 and 2016.

The following reconciliation depicts the effect of the transition to IFRS on total equity as at 1 January 2014 and 31 December 2016.

kEUR	as at 1 January 2014	as at 31 December 2016
Total equity according to German GAAP (HGB)	**45,933**	**79,873**
Goodwill	-	3,725
Other intangible assets	-	(3,771)
Acquisition of subsidiary	-	215
Investments measured at equity	1,845	1,278
Change in group structure	2,741	-
Inventories	4,902	-
Trade receivables	83	17
Participation rights	(10,981)	(10,856)
Defined benefit obligations	(2,393)	(4,394)
Acquisition of non-controlling interests	-	(1,751)
Financial liabilities and derivatives	(1,230)	(448)
Finance Leases	(10)	26
Deferred taxes	472	(3,114)
Other	(1)	6
Total equity according to IFRS	**41,361**	**60,806**

The following reconciliation depicts the effect of the transition to IFRS on profit for the period ended at 31 December 2016.

kEUR	Period ended at 31 December 2016
Profit for the period according to German GAAP (HGB)	**21,167**
Goodwill	3,215
Other intangible assets	(1,460)
Acquisition of subsidiary	(197)
Investments measured at equity	538
Defined benefit obligations	(206)
Financial liabilities and derivatives	440
Finance Leases	9
Trade receivables	(53)
Deferred taxes	(6,419)
Other	30
Profit for the period according to IFRS	**17,064**
Actuarial gains/losses from remeasurement of defined benefit pension plans	(1,058)
Deferred taxes effect relating to items that will not be reclassified	104
Exchange differences on translation of foreign operations	(51)
Total comprehensive income for the period according to IFRS	**16,059**

Goodwill Impairment

Goodwill was amortised on a straight-line basis under local GAAP. In line with the IFRS "impairment-only-approach", scheduled amortisation of goodwill is suspended as at 1 January 2014. Instead, goodwill is tested for impairment at each reporting date and whenever there are triggering events for impairment testing. The suspension of goodwill amortisation does not have an impact on retained earnings as at 1 January 2014. The effect on income for the years ended 31 December 2014, 2015 and 2016 is recognised in profit for the year under IFRS. For further information on goodwill impairment testing, please refer to 4.1.

Change in Group Structure

The 75.1% interest in Centuere Beteiligungs AG i.L., Hanover, which was measured at cost under local GAAP meets the criteria for inclusion in the consolidated financial statements under IFRS 10. The inclusion of Centuere Beteiligungs AG i.L. results in an increase in equity as at the date of transition to IFRS. The company was sold in financial year 2015. For further information, please refer to 2.4.

Other intangible assets

The 2014 acquisition of Naturwohl Vertriebs GmbH by Hübner Naturarzneimittel GmbH classifies as a business combination under local GAAP. In the absence of "processes", however, Naturwohl Vertriebs GmbH does not qualify as a "business" under IFRS 3. Accordingly, the acquisition cannot be classified as a business combination under IFRS. In the course of the transaction, Hübner Naturarzneimittel GmbH acquired the brand name "LactoStop". As a consequence, no goodwill is recognised under IFRS. Instead, an intangible asset (brand) is capitalised and depreciated over its useful life. Moreover, a customer relationship identified in the course of the purchase price allocation of Remedix GmbH was capitalised. This results in a decrease in equity as at 31 December 2016 of kEUR (3,771) in total.

Acquisition of subsidiary

In 2016, Axicorp GmbH obtained control over Remedix GmbH. IFRS 3 Business Combinations has been applied to the acquisition. The purchase price allocation conducted in accordance with IFRS differs from the approach chosen under local GAAP. The total effect on equity as at 31 December 2016 amounts to an increase of kEUR 215.

Investments measured at equity

Dermapharm holds 25.1% of shares in Gynial GmbH in Austria and 30% in Hasan Pharma Ltd, Saigon, Vietnam. These interests are classified as investments under local GAAP and measured at cost. Under IFRS, Gynial and Hasan qualify as associate companies of Dermapharm and thus have to be accounted for as at-equity investments. The change in accounting for these interests results in an increase in equity of kEUR 1,278 in 2016.

Inventories

In the light of the transition to IFRS, the measurement of inventories as at 1 January 2014 increased by kEUR 4,902 in order to account for the overhead not taken into account as at the opening balance. The adjustment does not have an impact on the total change in equity as at 31 December 2016.

Trade receivables

Provisions for impairment of receivables under local GAAP consist of both a specific allowance for impairments and a lump-sum allowance for expected future losses. IFRS does not permit recognition of impairment for expected future losses and this amount has been eliminated against retained earnings at 1 January 2014. The effect on earnings for the years ended 31 December 2014, 2015 and 2016 is also recognised in profit for the year under IFRS.

Participation Rights

Participation rights issued by Dermapharm are recognised as equity under local GAAP. The issued participation rights, however, do not meet the criteria for being classified as equity instruments under IFRS but are classified as financial liabilities. The reclassification of participation rights does not have an effect on profit for the period ended 31 December 2016.

Defined benefit obligation

The assumptions used for measuring defined benefit obligations under local GAAP differ from the assumptions used under IFRS.

Non-Controlling Interest

The acquisition of shares after the transfer of control resulted in the recognition of goodwill under local GAAP. Under IFRS, when there is a change in a parent's ownership interest in a subsidiary, but the parent does not cease to have control, this is accounted for as an equity transaction and no further goodwill is recognised.
The derecognition of goodwill from the acquisition of non-controlling interests in Farmal (financial years 2013 and 2014) and Melasan (financial year 2015) results in a reduction of equity of kEUR (1,751) as at 31 December 2016.

Financial liabilities and derivatives

The fair value of forward foreign exchange contracts is recognised under IFRS, and was not recognised under local GAAP. The contracts, which were designated as hedging instruments under local GAAP, have not been designated as hedging instruments as at the date of transition to IFRS.

The fair values of interest rate swaps and one currency-related swap are recognised under IFRS, and were not recognised under local GAAP. The effect on earnings at 1 January 2014 has been recognised in retained earnings. For the years ended 31 December 2014, 2015 and 2016, the effect is recognised in profit for the respective year under IFRS.

Moreover, effects on equity arise from the recognition of loans at amortised cost using the effective interest method to account for transaction costs for financial liabilities measured at amortised cost.

Deferred tax

The transitional adjustments lead to temporary differences in case they are recorded at the separate financial statement level of an entity which is not part of the Themis Beteiligungs AG tax group. According to the accounting policies in 2.18, the Group has to account for such differences. Deferred tax adjustments are recognised in connection with the underlying transaction either in retained earnings or the other comprehensive income.

Finance Leases

Several lease contracts which were classified as operating leases under local GAAP, need to be classified as finance leases under IFRS. The respective lease assets and liabilities have been capitalised in accordance with IAS 17. The effect on earnings at the date of transition has been recognised in retained earnings. The effect on earnings for the years ended 31 December 2014, 2015 and 2016 is also recognised in profit for the year under IFRS.

Statement of cash flows

The transition from local GAAP to IFRS has no material impact on the statement of cash flows.

2. Significant accounting policies and changes

2.1 Basis of preparation of financial statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee (IFRS IC) as adopted in the European Union (EU).

The consolidated financial statements have been prepared on a historical cost basis, except for plan assets due to post-employment benefits, which are measured at fair value in accordance with the requirements of IAS 19 Employee Benefits. Derivatives are measured at fair value at the balance sheet date.

To improve the clarity of presentation, various items in the consolidated statement of financial position and consolidated statement of comprehensive income have been summarised. 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 1.56.

The financial statements are presented in EUR (€). Amounts are shown in thousands of euros (kEUR) unless otherwise stated. As such, insignificant rounding differences could occur in period-over-period changes and percentages reported throughout.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Group’s accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in section 3.1 of the Notes.

The management prepared the consolidated financial statements on a going concern basis.

2.2 Effects of new or amended financial standards and interpretations

The Group applied all standards and interpretations (including amendments) as adopted by the EU in its financial statements, which are mandatory for financial years starting on or after 1 January 2016. For the financial year, the Group applied the following new and amended standards and interpretations for the first time that were endorsed by the EU:

Standard/ Interpretation	*Issued by IASB*	*Effective Date*	*Endorsement EU*	*Name*
IAS 1	14 May	16 January	15 December	Amendments to IAS 1: Disclosure Initiative
IAS 16 IAS 38	14 May	16 January	15 December	Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 IAS 41	14 June	16 January	15 November	Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants
IAS 27	14 August	16 January	15 December	Amendments to IAS 27: Equity Method in Separate Financial Statements
IFRS 10 IFRS 12 IAS 28	14 December	16 January	16 September	Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception
IAS 19	13 November	15 February	14 December	Amendments to IAS 19: Defined Benefit Plans: Employee Contributions
IFRS 11	14 May	16 January	15 November	Amendments to IFRS 11: Accounting Acquisitions of Interests in Joint Operations
DIV	13 December	15 February	14 December	Annual Improvements to IFRS – 2010–2012 cycle
DIV	14 September	16 January	15 December	Annual Improvements to IFRS – 2012– 2014 cycle

The amendments and improvements do not have a material impact on the Group's consolidated financial statements.

<u>Standards and interpretations issued but not yet applied by the Group:</u>

The Group intends to adopt these standards, if applicable, when they take effect. Only those standards and interpretations, which may be relevant for the Group are discussed below:

Standard/ Interpretation	*Issued by IASB*	*Effective Date*	*Endorsement EU*	*Name*
IAS 7	16 January	17 January	17 November	Amendments to IAS 7: Disclosure Initiative
IAS 12	16 January	17 January	17 November	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
IAS 28	17 December	19 January	Pending	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
IAS 40	16 December	18 January	Pending	Amendments to IAS 40: Transfers of Investment Property
IFRS 2	16 June	18 January	Pending	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
IFRS 4 IFRS 9	16 September	18 January	17 November	Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	14 July	18 January	16 November	Financial Instruments
IFRS 9	17 December	19 January	Pending	Amendments to IFRS 9: Prepayment Features with Negative Compensation
IFRS 10 IAS 28	14 September	Postponed indefinitely	Pending	Sale or contribution of assets between an investor and its associate or joint venture
IFRS 15	14 May	18 January	16 September	Revenue from Contracts with Customers
IFRS 15	16 June	18 January	17 October	Clarifications to IFRS 15: Revenue from Contracts with Customers
IFRS 16	16 January	19 January	17 October	Leases
IFRS 17	17 May	21 January	Pending	Insurance contracts - IFRS 17 will replace IFRS 4

IFRIC 22	16 December	18 January	Pending	IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration
IFRIC 23	17 June	19 January	Pending	IFRIC Interpretation 23: Uncertainty over Income tax treatments
DIV	16 December	18 January	Pending	Annual Improvements to IFRS – 2014-2016 cycle
DIV	17 December	19 January	Pending	Annual Improvements to IFRS – 2015-2017 cycle

- **IFRS 9 Financial Instruments** addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income (OCI) without recycling. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one Management actually uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group has yet to assess the full impact of IFRS 9.

- **IFRS 15 Revenue from Contracts with Customers** deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

- **IFRS 16 Leases** was released on 13 January 2016. In accordance with this new standard, the lessee must recognise the leased asset and the lease liability for most types of leases. The new standard on leases applies to all reporting periods beginning on or after 1 January 2019 and replaces IAS 17. The Group is assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group financial statements. Early adoption of the above-mentioned publications is currently not planned.

2.3 Changes in accounting policies

There were no changes to accounting policies with significant consequences for the presentation of the Group's net assets, financial position and results of operations or cash flows in financial year 2016.

2.4 Basis of consolidation

Dermapharm is the holding company of the Group. Group business is conducted by Dermapharm AG and its various subsidiaries. The consolidated financial statements include all material companies whose financial and business policy can be controlled by the Company, either directly or indirectly, and the material equity interests of Dermapharm whose financial and business policy can be influenced by the Company to a significant extent.
As of 2016, Dermapharm directly or indirectly holds shares in the following companies:

Company name and registered office	Proportion of shares directly held by parent	Proportion of shares directly held by the Group
consolidated subsidiary		
Mibe GmbH Arzneimittel, Brehna	100%	
Mibe Vertrieb GmbH, Grünwald	100%	
Cancernova GmbH, Grünwald	100%	
axicorp GmbH, Friedrichsdorf	85%	
Anton Hübner GmbH & Co. KG, Ehrenkirchen	100%	
Hübner Naturarzneimittel GmbH, Ehrenkirchen	100%	
Dermapharm GmbH, Vienna, Austria	100%	
Dermapharm AG, Hünenberg, Switzerland	100%	
Sun-Farm Sp. z o.o, Warsaw, Poland	100%	
Farmal d.d, Ludbreg, Croatia	100%	
Mibe Pharmaceuticals d.o.o Ludbreg, Croatia	100%	
acis Arzneimittel GmbH, Grünwald		100%
axicorp Pharma GmbH, Friedrichsdorf		100%
Podolux GmbH, Friedrichsdorf		100%
axicorp Pharma B.V, The Hague, Netherlands		100%
axicorp ApS, Hellerup, Denmark		100%
remedix GmbH, Koblenz		75%
Melasan GmbH, Salzburg, Austria		100%
Farmal BH d.o.o, Sarajevo, Bosnia-Herzegovina		100%
Aktival d.o.o, Ludbreg, Croatia		100%
subsidiary not consolidated		
Anton Hübner Verwaltungs GmbH, Ehrenkirchen	100%	
Tiroler Nussöl Sonnenkosmetik GmbH, Kitzbühel, Austria	100%	
East Pharma AG, Grünwald	100%	
Mibe Ukraine LLC, Kiev, Ukraine		100%
Pragopharm Research, Prague, Czech Republic		100%
Pragopharm Production, Prague, Czech Republic		100%
associated companies		
Hasan Pharma Ltd, Saigon, Vietnam	30%	
Gynial GmbH, Vienna, Austria		25%
Gynial AG, Hünenberg, Switzerland		40%
other investments		
Hasan Dermapharm Joint Venture Ltd, Saigon, Vietnam	5%	

Changes in the scope of consolidation:

Changes in the scope of consolidation in the reporting period from 1 January 2014 to 31 December 2016 stem from a number of acquisitions, sales of companies and one merger. On 21 December 2015, Axicorp GmbH, in which Dermapharm holds an interest of 85%, entered into a contract to acquire a 75.1% interest in Remedix GmbH (please refer to 2.7 for more information on the acquisition of Remedix GmbH).

Merger of Naturwohl Vertriebs GmbH:

Naturwohl Vertriebs GmbH, Gräfelfing, was merged with Huebner Naturarzneimittel GmbH, Grünwald, in financial year 2015. For further information, please refer to 4.1.

Investment in Gynial GmbH, Vienna, Austria:

Dermapharm GmbH, Vienna, acquired a 25.1% interest of the Gynial GmbH, Vienna, in 2015. The investment is accounted for using the equity method; please refer to section 4.3 for further details.

Acquisitions of non-controlling interests:

In 2015, Dermapharm GmbH, Vienna, Austria, increased its stake in Melasan GmbH, Salzburg, Austria, by 25% to 100% for a cash consideration of kEUR 1,850, which was paid in financial year 2016. Melasan GmbH had already been fully consolidated in the prior year when Dermapharm held a 75% stake in the company. There is no change in the basis of consolidation or presentation in the IFRS consolidated financial statements. The carrying amount of Melasan GmbH's net assets in the Group's consolidated financial statements on the date of acquisition was kEUR 1,930. The Group recognised a decrease in NCI of kEUR 483 and a decrease in retained earnings of kEUR 1,367.

The Group also acquired an additional stake of 2.9% in Farmal d.d., Ludberg, Croatia, in 2015 and increased its stake to 100% for a cash consideration of kEUR 93. Farmal d.d. had already been fully consolidated in the prior year when the Group held a 97.1% stake in the company. There is no change in the basis of consolidation or presentation in the IFRS consolidated financial statements. The carrying amount of Farmal d.d.'s net assets in the Group's consolidated financial statements on the date of acquisition was kEUR -10,369. The Group recognised an increase in NCI of kEUR 301 and a decrease in retained earnings of kEUR 403.

Divestments:

In 2015, the Group sold the Dermapharm Verwaltungs GmbH, Grünwald (100%), Dermapharm Beteiligungsgesellschaft mbH & Co. KG, Grünwald (100%), SLG Service Logistik Güntherdorf GmbH, Leuna (100%), the 26.3% stake in HMO AG, Oberhaching, and its 75.1% stake in the Centuere Beteiligungs AG i.L., Hanover.

At the end of 2014 a decision was made to close down the subsidiary Farmal d.o.o., Belgrade. The liquidation process was finalised in December 2016.

SLG Service Logistik Günthersdorf GmbH, Leuna, as well as Centuere Beteiligungs AG i.L., Hanover, have been deconsolidated.

The sale of Centuere Beteiligungs AG i.L., Hanover, to Themis Beteiligungs AG for kEUR 6,534 was completed on 17 December 2015. The sale was concluded in order to adjust the portfolio with respect to marginal activities not relating to the pharma business. The decision to sell the subsidiary was made at short notice in 2015 and Centuere was therefore not classified as a held-for-sale investment in accordance with IFRS 5 as at 31 December 2014. The negative result from the divestiture of kEUR 731 has been recognised in other operating expenses.

Result from the deconsolidation of Centuere Beteiligungs AG i.L.:

Deconsolidation of Centuere Beteiligungs AG	
kEUR	**31 December 2015**
Consideration (total received in cash)	6,534
Divested Assets	(7,581)
Divested Liabilities	316
Result from divestiture	**(731)**

With effect from 31 December 2015, the sale of SLG Service Logistik, Leuna, to Themis Beteiligungs AG for kEUR 25 was completed. The sale was concluded in order to adjust the portfolio with respect to marginal activities not relating to the pharma business. The decision to sell the subsidiary was made at short notice in 2015 and SLG was therefore not classified as a held-for-sale investment in accordance with IFRS 5 as at 31 December 2014. The positive result from the divestiture of kEUR 612 has been recognised in other operating income.

Result from the deconsolidation of SLG Service Logistik:

Deconsolidation of SLG Service Logistik	
kEUR	**31 December 2015**
Consideration (total received in cash)	25
Divested Assets	(31,549)
Divested Liabilities	32,136
Result from divestiture	**612**

Consolidation principles:

All material subsidiaries are included in the consolidated financial statements. Subsidiaries are all entities Dermapharm has direct or indirect control of. 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.

Associates are companies over which Dermapharm is able to exercise significant influence, generally through an ownership interest between 20% and 50%, and which are not subsidiaries or joint ventures. They are included in the consolidated financial statements using the equity method.

Intercompany expenses and income as well as balances between the Group companies are eliminated. The elimination of unrealised gains on transactions, however, is deemed to be immaterial for giving a true and fair view of the profit or loss of the Group. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group accounting policy. Effects of consolidation on income taxes are accounted for by recognising deferred taxes.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Subsidiaries, whose influence, both individually and as a whole, on the net assets, financial position and results of operations of the Group is immaterial, are not consolidated or accounted for using the equity method.

The financial statements of subsidiaries are prepared using uniform accounting policies.

2.5 Currency translation

The Group's consolidated financial statements are presented in EUR. In the financial statements of companies included in the Group financial statements, foreign currency transactions are translated in the functional currency at the respective exchange rate. A company's functional currency is that of the economic environment in which it primarily generates and expends cash.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Monetary items (cash and cash equivalents, receivables and liabilities) denominated in foreign currencies are translated into the functional currency at closing rates. The resulting exchange rate gains and losses are recognised through profit and loss under net foreign exchange gains and losses. They are reported separately if they are material.

The financial statements of the consolidated foreign companies whose functional currency is not EUR are translated into Dermapharm's reporting currency, EUR. In accordance with IAS 21, assets, including goodwill, and liabilities are translated at closing rates, and statement of comprehensive income items are translated at the average exchange rates for the reporting period. Differences from currency translation of statements of comprehensive income at average rates and statements of financial position at closing rates are reported outside profit or loss in other comprehensive income. The currency difference resulting from the translation of equity at historical rates is likewise posted to other comprehensive income. Currency differences recognised in other comprehensive income are recycled to profit and loss if the corresponding Group Company is sold.

The exchange rates for significant currencies taken as the basis for the currency translation developed as follows (equivalent value for EUR 1):

Country	**Currency**	**Average rate**				**Closing rate**			
	1 EUR =	**31 December 2016**	**31 December 2015**	**31 Decembe r 2014**	**1 January 2014**	**31 December 2016**	**31 December 2015**	**31 December 2014**	**1 January 2014**
Switzerland	CHF	1.0902	1.0679	1.2146	1.2311	1.0739	1.0835	1.2024	1.2276
Denmark	DKK	7.4452	7.4587	7.4548	7.4579	7.4344	7.4626	7.4453	7.4593
Croatia	HRK	7.5333	7.6137	7.6344	7.5786	7.5597	7.638	7.658	7.6265
Poland	PLN	4.3632	4.1841	4.1843	4.1975	4.4103	4.2639	4.2732	4.1543

2.6 Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred. Assets, liabilities and contingent liabilities from the business combination are recognised in full for Remedix GmbH, regardless of the amount of the investment with the respective fair value at the acquisition date. Goodwill that arises is tested for impairment annually. Any gain on a bargain purchase is recognised in profit or loss immediately, transaction costs are expensed as incurred.

Acquisition of Remedix GmbH, Koblenz, Germany:

At 21 December 2015, Axicorp GmbH, in which Dermapharm holds an 85% interest, entered into a contract to acquire 75.1% of Remedix GmbH, an importer and distributor of narcotic drugs and psychotropics in the EU. With the acquisition, the Group intends to extend its product pipeline and access the re-import business.

The last condition precedent to the purchase agreement was met on 29 February 2016, when cash payment was transferred to the former shareholder. With the transfer of 75.1% of the voting rights, Axicorp GmbH acquired initial control over the legal entity.

The preliminary fair values of the identifiable assets and liabilities of Remedix GmbH (in accordance with IFRS 3.47) as of the date of acquisition were as follows:

kEUR	**Fair value as of 29 February 2016**
Purchase Price	
Cash	1,442
Total consideration transferred	**1,442**
Fair values of acquired assets and liabilities	
Intangible assets	**2,533**
thereof identified *during purchase price allocation*	2,287
Fixed assets	*37*
Inventories	1,755
Trade receivables	172
Other current assets	663
Cash and cash equivalents	22
Accruals	61
Liabilities to banks	(1,409)
Liabilities to related parties	(890)
Other non-interest bearing provisions	(116)
Deferred tax liabilities	(629)
Trade payables	(878)
Other short-term liabilities	(184)
Fair value of acquired net assets for 100%	1,136
Fair value of acquired net assets for 75.1%	**853**
Goodwill arising on acquisition	**589**

Acquired gross contractual amounts receivable amount to kEUR 172, of which none were estimated to be uncollectible as of the acquisition date. The gross amount corresponds to the fair value as the remaining term of the receivables is less than one year.

The right to acquire the minority shares was granted within the share purchase agreement. The option was assessed to be immaterial. The consideration transferred for the transferred 75.1% of the shares amounted to kEUR 1,442.

Comparing the consideration transferred for 75.1% of the shares to the identified fair values of assets and liabilities for 75.1% of the shares (kEUR 853) results in goodwill of kEUR 589. Factors underlying this goodwill arise from expected synergies from the combined business activities and other intangible assets that cannot be reported separately, such as the combined workforce.

Customer relationships in the amount of kEUR 2,287 were identified as an intangible asset during the purchase price allocation. The key assumptions of the valuation of the customer relationship are as follows:

	Customer relationship
Valuation method used	Multi-period excess earnings
Useful life	7 years
Cost of capital (indefinite maturity)	5.6%

The former shareholders of Remedix GmbH were propharmed GmbH (70%) and Mrs Nicole Broockmann (30%).

No transaction costs had to be recognised as an administrative expense in connection with the acquisition of Remedix GmbH.

Remedix GmbH contributed total revenue of kEUR 5,735 to consolidated revenue for the period from 29 February 2016 to 31 December 2016 and decreased the profit for the period by a total of kEUR -1,397 over the same period. If the combination had taken place at the beginning of the year, Remedix GmbH would have contributed kEUR 6,549 to consolidated revenue and kEUR -1,734 to profit for the period, net of tax.

2.7 Intangible assets

Software, licenses, patents and similar rights

In line with the business model of the Dermapharm Group, the Group companies do not conduct any fundamental pharmaceutical research. Instead, the focus is on the development of preparations using pharmaceutical ingredients which as a rule are no longer patent-protected. Dermapharm Group’s intangible assets primarily comprise drug approvals.

The drug approvals are partly acquired from third parties and partly developed by Dermapharm Group itself.

In accordance with IAS 38.72, the Group can choose between the cost method and the revaluation method for each group of intangible assets.

Under the acquisition cost method (IAS 38.74), intangible assets are recognised at its acquisition or production cost after initial recognition, less any amortisation and impairment losses. The revaluation method can only be applied if the fair value can be derived from an active market. There is no active market for drug approvals. Therefore, the revaluation method is not applied. Dermapharm Group applies the acquisition cost method.

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

Capitalised development costs

Development costs that are capitalised relate to the costs incurred to maintain and expand our technical position by continually enhancing our embedded products. The capitalised development costs have mainly been recognised for development projects that create new pharmaceutical products. Development costs of a single project are only capitalised as an intangible asset if the following criteria pursuant to IAS 38 have been met:

- Newly developed products are identifiable assets.
- Completing the intangible asset is technically feasible so that it will be available for use.

- Management intends to complete and use the product.
- It is probable that the product will generate future economic benefits.
- Adequate technical, financial, and other resources are available so that the development can be completed and the product can be used.
- The expenditure during development can be reliably measured.

The previously mentioned criteria are assessed and analysed on a project by project basis as well as reviewed and approved by Management. Once the project is approved in accordance with the criteria in IAS 38, costs are capitalised. Those costs directly attributable to the development project – including 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 – are used.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

Intangible assets acquired in business combinations or separately

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

The Group has capitalised a customer relationship which was identified in the context of the purchase price allocation of Remedix GmbH (please refer to 2.7 for more information on the acquisition of Remedix GmbH).

In the course of the acquisition of the trademark “LactoStop” in financial year 2014, Dermapharm capitalised a trademark. For further information, please refer to 2.4.

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. Capitalised goodwill is not subject to amortisation. It is assessed annually for impairment and can be assessed more frequently, if there is any indication for impairment during the year (impairment-only approach).

Amortisation and impairment of intangible assets

Amortisation and impairment write-offs of revenue generating assets are recorded in the consolidated statement of comprehensive income as amortisation and are shown as amortisation of intangible assets in the consolidated statement of cash flows. The carrying amounts, economic useful lives and amortisation methods are verified at each balance sheet date and prospectively adjusted where appropriate. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to the recoverable amount in accordance with IAS 36. If there is an indication that a previously recorded impairment loss may no longer exist, the carrying amount of the asset is increased. Impairment write-offs related to capitalised development costs, which are not revenue generating, are charged to “other operating expenses” in the consolidated statement of comprehensive income and are reported under “Amortisation of intangible assets - impairment charges” in the consolidated statement of cash flows. The reversal shall not exceed the carrying amount that would have been determined had no impairment loss been recognised.

Amortisation is primarily based on the following useful lives:

Intangible assets	Years	Note
Software, licenses, patents and similar rights	3-15	Approvals, trademarks and software
Goodwill	n/a	
Advance payments	n/a	

In accordance with IAS 38.88, a distinction between intangible assets with definite and indefinite useful lives has to be made. The assessment of the management of the Group is that the approvals generate profit for the company only for a limited period of time. The market for medicinal products subject to authorisation is subject to frequent changes. Therefore, the Group assumes a life cycle of drug approvals and licenses of 15 years. Amortisation is calculated using the straight-line method to allocate the cost of licenses, patents and similar rights over their estimated useful lives.

Capitalised development costs for development projects are also amortised on a straight-line basis over the period of expected future benefit (generally 15 years). Amortisation of capitalised development costs that are revenue generating begins when development is complete and the asset is available for use, which is normally the release of the developed product to mass production.

Recognised development costs are also tested for impairment in accordance with IAS 36 (IAS 38.111). At each balance sheet date, the approvals are tested for impairment in accordance with IAS 36. There was no need for impairment as at the presented balance sheet dates.

The customer relationship, which was identified in the context of the purchase price allocation of Remedix GmbH, is amortised on a straight-line basis over the expected useful life of seven years.

The trademark “LactoStop”, which was acquired in financial year 2014, is amortised on a straight-line basis over the expected useful life of nine years. The following table depicts the remaining useful lives of these assets as at 31 December 2016.

31 December 2016	Remaining useful life	Asset origin
Customer relationship	6.2 years	Acquired
Trademark	6.4 years	Acquired

For a detailed description of the acquired customer relationship and the recognised carrying amount, please refer to 2.7. For more detailed information on the acquired trademark and the respective carrying amount as at the balance sheet date, please refer to in 4.1.

2.8 Property, plant and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, 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 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 and are recognised on a net basis within other operating income or other operating expenses in profit or loss.

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 the Group 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 each part 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.

The estimated useful lives for the current and comparative periods are as follows:

Property, plant and equipment	**Years**	**Note**
Land and Buildings including buildings on third party land	10 - 60	Building plots, buildings, outdoor installations
Technical equipment and machinery	5 - 20	Tools / Aids / Machinery production and filling, air conditioning, ventilation
Other fixed assets and office equipment	3 - 23	IT, (office / production) equipment and business equipment, video surveillance, telephone system, small value assets
Advance payments	n/a	

2.9 Financial assets

IAS 39 requires financial assets to be classified in one of the following categories:

- Financial assets at fair value through profit or loss
- Available-for-sale financial assets
- Loans and receivables
- Held-to-maturity investments

Those categories are used to determine how a particular financial asset is recognised and measured in the financial statements.

Initial recognition and measurement

Financial assets are classified into categories as defined in IAS 39, with their classification depending on the purpose for which the financial assets have been acquired. In line with that classification, the Group's financial assets consist of loans, receivables and positive fair values of derivatives.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed in an active market. They are classified as current assets provided that their maturities do not exceed twelve months following the balance sheet date. The latter are presented as non-current assets. Loans and receivables of the Group are classified in the statement of financial position as "trade receivables" and "other current financial assets". Trade receivables include receivables falling due resulting from the sale of goods in the course of normal business activities. Loans and receivables are measured at amortised cost in accordance with IAS 39.46(a).

Financial assets are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit and loss.
In accordance with IAS 39.9, a derivative is classified as "at fair value through profit or loss". Derivatives are measured at their fair value (excluding transaction costs) upon initial recognition in accordance with IAS 39.43.

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Equity investments are measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. All other available-for-sale financial assets are measured at fair value.

Subsequent measurement

Loans and receivables, after initial measurement, are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment, if any. 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 EIR. The EIR amortisation is included in financial income in the statement of comprehensive income. The losses arising from impairment are recognised in profit or loss.

The amortised cost of trade receivables, due to their short term maturity, in general matches their fair values, taking into account any impairment losses.

In accordance with IAS 39.55, gains or losses from derivatives measured at fair value through profit or loss are recognised in profit or loss in the income statement.

Fair value changes for available-for-sale financial assets are recognised directly in equity, through the statement of changes in equity, except for interest on these assets (which is recognised in income on an effective yield basis), impairment losses and foreign exchange gains or losses. The cumulative gain or loss that was recognised in equity is recognised in profit or loss when an available-for-sale financial asset is derecognised.

Derecognition of financial assets

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 classified as uncollectable. If a derecognised receivable is later reclassified as collectable on the basis of an event that has occurred after it was derecognised, then the corresponding amount is recorded directly in other operating income.

Derivatives are derecognised at the end of the contractual obligation.

2.10 Inventories

Inventories include raw materials and supplies, semi-finished goods and finished goods.

Inventories are measured at the lower of cost or net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production costs and other costs incurred in bringing 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 assigned individually or based on the FIFO method.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash deposits. Cash and cash equivalents are reported in accordance with their definition as financial resources in IAS 7.

2.12 Financial liabilities

Recognition and measurement

Financial liabilities regularly lead to a contractual obligation to deliver cash or another financial asset and are classified pursuant to IAS 39.

The Group's financial liabilities consist of financial liabilities measured at amortised cost and derivatives measured at fair value through profit or loss.

Financial liabilities measured at amortised cost include trade payables, financial liabilities and other financial liabilities not held for trading purposes. Trade payables are payment obligations for goods and services acquired in the course of normal business activities. Financial liabilities are recognised as current liabilities if the payment obligation is due within one year. Otherwise they will be classified as non-current liabilities. The Group's financial liabilities measured at amortised cost are recognised as "trade payables" and "other financial liabilities".

Management defines the classification of financial liabilities at initial recognition.

All financial liabilities are measured at fair value upon initial recognition.

Subsequent measurement

In order to simplify subsequent measurement, current trade payables as well as other current financial liabilities are measured using their settlement amount. Non-current financial liabilities as well as bank liabilities are carried at amortised cost in accordance with the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate (EIR) amortisation process. 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 EIR. The EIR amortisation is included as financial expenses in the statement of comprehensive income.

Gains or losses from derivatives measured at fair value through profit or loss are recognised in profit or loss in the income statement.

Derecognition

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

When an existing financial liability is replaced through the same lender by another financial liability with substantially different contractual terms, or the terms of an existing liability are materially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

Offsetting 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 a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial guarantees

Financial guarantees are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Obligations from financial guarantees are determined upon acquisition at their fair value and, if not measured at fair value through profit or loss, are valued subsequently at the higher amount resulting from the value calculated pursuant to IAS 37 Provisions, Contingent Liabilities and Contingent Assets for the contractual obligation and resulting from the originally calculated amount less the cumulated amortisation.

2.13 Government grants

Mibe GmbH Arzneimittel received government grants for the construction and extension of the plant in Brehna, Germany. Government grants are accounted for as deferred income in accordance with IAS 20.24. The grants are systematically recognised as income over the period necessary to match them with the related costs they are intended to compensate. Government grants are reported under other non-current liabilities. The parts of the grants which will be reversed within the next twelve months are reported under current liabilities.

As at the balance sheet date, there were no unfulfilled conditions and contingencies attached to the recognised grants.

2.14 Provisions for pensions

Provisions for pensions are recognised for obligations relating to vested benefits and current benefit payments to eligible active and former employees of the Group companies and their surviving dependants. Provisions for pensions are only recognised for companies from Germany and are generally based on the employees' remuneration and years of service. Pension plans are generally either defined contribution plans or defined benefit plans.

In the case of defined contribution plans, the company contributes to publicly or privately administered pension plans on a mandatory or contractual basis. Once the contributions have been paid, the company has no further payment obligations. Contributions are recognised as personnel expenses in the year in which they are paid.

In the case of defined benefit plans, the company agrees to render the benefits promised to active and former employees, whereby a distinction is made between systems that are financed by provisions and those financed through pension funds.

The present value of provisions of defined benefit plans and the resulting expense are calculated in accordance with IAS 19 using the projected unit credit (PUC) method. In addition to vested pensions and entitlements, the calculation also includes future salary and pension increases. Provisions for pensions are calculated based on the biometric accounting principles of the Heubeck 2005 G mortality tables. The discount rates used are calculated from the yields of high-quality corporate bond portfolios in specific currencies with cash flows approximately equivalent to the expected disbursements from the pension plans. The uniform discount rate derived from this interest-rate structure is thus based on the yields, at the closing date, of a portfolio of high-quality corporate bond.

For provisions 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. The obligations and plan assets are valued at regular intervals. Comprehensive actuarial valuations for all plans are performed annually as of 31 December. Plan assets in excess of the benefit obligation are reported under other receivables, subject to the asset ceiling specified in IAS 19.

IAS 19 only permits actuarial gains and losses to be recognised with no effect on income. It differentiates between gains and losses due to changes in demographic assumptions, changes in financial assumptions and experience-based adjustments. They are recognised directly in equity with no effect on income in the period in which they occur (other comprehensive income). The relevant amounts are reported separately in the consolidated statement of comprehensive income. In accordance with IAS 19, the discount rate underlying the obligation is used to calculate the interest income on plan assets recognised through profit or loss. The remainder of the actual income from plan assets must be recognised directly in other comprehensive income with no effect on profit or loss. The current service cost is recognised as personnel expenses. All past service cost that arises in the financial year shall be recognised immediately through profit or loss.

2.15 Other Provisions

Provisions are recognised pursuant to IAS 37, provided the following conditions have been cumulatively met:

- The Group has a present legal or constructive obligation.
- This obligation is the result of a past event.
- It is more likely than not that the settling of this obligation will lead to an outflow of resources.
- The provision amount can be reliably measured.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the probability of an outflow with respect to any one item included in the same class of obligations may be small.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

2.16 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.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The Company’s taxable income, whether distributed or retained, is generally subject to German corporate income tax at a uniform rate of 15% plus the solidarity surcharge of 5.5% thereon, resulting in a total tax rate of 15.825%.

Current taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes

Deferred tax liabilities are created for temporary differences between the tax base of the assets or liabilities and their valuation rate in the IFRS financial statements as well as for tax loss carryforwards in the consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that a taxable profit will result against which the temporary difference can be utilised. Deferred tax liabilities are recognised for temporary differences taxable in the future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred taxes are considered non-current.

2.18 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. An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, exchanges for dissimilar items are regarded as generating revenue. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Group’s activities, as described below.

Sale of goods

Dermapharm sells a broad assortment of patent-free branded pharmaceuticals, healthcare products such as cosmetics, food supplements, dietary products and imported pharmaceuticals from other EEA Member states for resale in the German market in order to profit from pricing differences between the different markets.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership (the transfer of title per incoterms agreed with the buyer) of the goods have passed to the buyer. This is generally the case upon delivery of the goods and merchandise. Revenue is presented net of discounts, rebates and returns.

The German pharmaceuticals market is highly regulated, requiring manufacturers to obtain marketing authorisations before introducing a new product for sale. Extensive regulation also affects prices for prescription pharmaceuticals (i.e., pharmaceuticals that require a doctor's prescription for distribution) 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 of 6% as well as a price moratorium, which was recently extended until 2022. Under this moratorium, pharmaceuticals manufacturers are required to compensate SHI providers and private health insurance companies for any price increases, making such increases economically unattractive. 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.

Rendering of services:

The Group does not provide or render any services.

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:

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, which is the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2.19 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for payment the right to use an asset for an agreed period of time. The Group companies do not act as lessors.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding lease obligations, net of finance charges, are reported under either current or non-current financial liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Rental and lease payments made by the Group under operating leases are recognised in other operating expenses as they incur. All relevant details are reported in 7.2.

2.20 Derivatives

The Group uses derivatives to mitigate the risk of changes in exchange rates or interest rates. The instruments used include forward exchange contracts and interest-rate swaps. Derivatives are recognised at the trade date.

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

2.21 Fair value measurement

The following tables 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	Interrelationship between significant unobservable inputs and fair value measurement
Available for sale Investments (n/a)	Due to a lack of information and immateriality of available for sale investments, the fair value of those 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 the Group and the counterparty, which is calculated based on credit spreads.	n/a	n/a
Currency-related swaps (Level 2)	Option Pricing: Fair value is calculated as the present value of the estimated future cash flows based on a 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 the Group and the counterparty, which is calculated based on credit spreads.	n/a	n/a
Foreign Exchange Forwards (Level 2)	Forward pricing: The fair values are determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies. The fair value measurement is subject to a credit/debit valuation adjustment that reflects the credit risk of the Group and the counterparty, which is calculated based on credit spreads.	n/a	n/a

Financial instruments not measured at fair value:

Type	Valuation technique	Significant unobservable inputs	Interrelationship between significant unobservable inputs and fair value measurement
Bank loans and leasing 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 for the balance sheet date corresponds to the value of the benchmark- yield curve on that date. Discount rates for future due dates correspond to the values of the term-equivalent benchmark-yield curve.	n/a	n/a

3. Estimates and judgements

Estimates and judgments 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.

3.1 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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. Other judgements relate to the decision of whether a lease contract is to be classified as a finance or an operating lease and whether triggering events for impairment testing existed.

Business Combinations

Various valuation methods are used in the context of purchase price allocations in business combinations that are primarily based on estimates and assumptions. The employed methods and carrying amounts identified in the acquisition of Remedix GmbH are presented in 2.7.

Goodwill Impairment Test

Dermapharm AG tests any capitalised goodwill for impairment at least once a year. The necessary assumptions and estimates are presented in detail in 4.1. For the carrying amounts of goodwill as at the balance sheet date, please refer to 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. Especially in the context of impairment tests for yet unused approvals, the growth rates applied for the test 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 4.1 and 4.2.

Development Costs

Development costs are capitalised based on the assessment of whether the capitalisation requirements of IAS 38 are met. Planning calculations are necessary to determine the future economic benefit, which are by their nature subject to estimates and may therefore deviate from actual circumstances in the future. For the carrying amounts of capitalised development costs as at the balance sheet date, please refer to 4.1.

Taxation

Dermapharm Group operates in various countries and is obliged to pay respective income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred tax liabilities in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain balance sheet items pursuant to IFRS and their accounting in accordance with tax law are each to be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed values, this has a corresponding effect on current and deferred taxes and thus on the net assets, financial position and results of operations of the Group in the respective period. For more detailed information on the income taxes and deferred taxes, please refer to 4.17.

Fair value of financial assets and liabilities

When determining the fair values of derivatives and other financial instruments, for which no market price in an active market is available, valuation models based on input parameters observable in the market are applied. The cash flows, which are already fixed or calculated by means of the current yield curve using so-called “forward rates”, are discounted to the measurement date with the discount factors determined by means of the yield curve valid on the reporting date. All carrying amounts are shown in 6.3.

Trade and other receivables, cash and cash equivalents, trade and other payables, current liabilities to banks, current leasing liabilities and other current financial liabilities generally have a short maturity. The carrying amounts less allowances, where applicable, approximate the fair values.

Pension and other post-employment benefits

The carrying amounts of defined benefit pension plans and other post-employment benefits are based on actuarial valuations. The actuarial valuations involved making 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. Further details are given in 4.17.

Other provisions

Such provisions are recognised when it is considered probable that economical, legal, ecological and decommissioning obligations will result in future outflows of economic benefits, when the costs can be estimated reliably and the measures in question are not expected to result in future inflows of economic benefits. 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 experiences in similar cases, the conclusions of expert opinions commissioned by the Group, current costs and new developments that have a bearing on the costs. Any changes to these estimates could have an impact on the future results of the Group. The carrying amounts as at the balance sheet dates are shown in 4.12.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

Intangible assets changed as follows:

kEUR	Goodwill	Software, licenses, patents and similar rights	Capitalised development costs	Total
Cost				
At 1 January 2016	**37,659**	**133,216**	**19,867**	**190,742**
Exchange differences	-	58	**-**	**58**
Additions through business combinations	589	2,533	-	**3,122**
Additions	-	4,389	8,319	**12,708**
Disposals	-	(6,001)	(1,119)	**(7,120)**
Transfers	-	-	-	**-**
At 31 December 2016	**38,248**	**134,195**	**27,067**	**199,510**
Amortisation and impairment				
At 1 January 2016	**21,215**	**80,442**	**4,675**	**106,332**
Exchange differences	-	40	**-**	**40**
Additions	-	9,187	24	**9,211**
Additions (impairment)	-	-	-	**-**
Disposals	-	(3,131)	-	**(3,131)**
Transfers	-	-	-	**-**
At 31 December 2016	**21,215**	**86,538**	**4,699**	**112,452**
Carrying amount				
At 31 December 2015	**16,444**	**52,774**	**15,192**	**84,410**
At 31 December 2016	**17,033**	**47,657**	**22,368**	**87,058**

kEUR	Goodwill	Software, licenses, patents and similar rights	Capitalised development costs	Total
Cost				
At 1 January 2015	**37,659**	**149,057**	**12,499**	**199,215**
Exchange differences	-	289	**-**	**289**
Additions through business combinations	-	-	-	**-**
Additions	-	3,659	8,081	**11,740**
Disposals	-	(19,789)	(713)	**(20,502)**
Transfers	-	-	-	**-**
At 31 December 2015	**37,659**	**133,216**	**19,867**	**190,742**
Amortisation and impairment				
At 1 January 2015	**16,106**	**85,170**	**4,673**	**105,949**
Exchange differences	-	228	**-**	**228**
Additions	-	9,884	2	**9,886**
Additions (impairment)	5,109	-	-	**5,109**
Disposals	-	(14,840)	-	**(14,840)**
Transfers	-	-	-	**-**
At 31 December 2015	**21,215**	**80,442**	**4,675**	**106,332**

Carrying amount				
At 31 December 2014	**21,553**	**63,887**	**7,826**	**93,266**
At 31 December 2015	**16,444**	**52,774**	**15,192**	**84,410**

kEUR	Goodwill	Software, licenses, patents and similar rights	Capitalised development costs	Total
Cost				
At 1 January 2014	**37,659**	**134,184**	**8,452**	**180,295**
Exchange differences	-	36	**-**	**36**
Additions through business combinations	-	-	-	**-**
Additions	-	14,812	7,345	**22,157**
Disposals	-	(911)	(2,362)	**(3,273)**
Transfers	-	936	(936)	**-**
At 31 December 2014	**37,659**	**149,057**	**12,499**	**199,215**
Amortisation and impairment				
At 1 January 2014	**10,916**	**72,321**	**-**	**83,237**
Exchange differences	-	44	**-**	**44**
Additions	-	13,499	-	**13,499**
Additions (impairment)	5,190	-	4,673	**9,863**
Disposals	-	(694)	-	**(694)**
Transfers	-	-	-	**-**
At 31 December 2014	**16,106**	**85,170**	**4,673**	**105,949**
Carrying amount				-
At 1 January 2014	**26,743**	**61,863**	**8,452**	**97,058**
At 31 December 2014	**21,553**	**63,887**	**7,826**	**93,266**

In financial year 2016, the Group acquired a 75% stake in Remedix GmbH; for further details please refer to section 2.7. This transaction resulted in an increase in the accumulated cost of software, licenses, patents and rights of kEUR 2,533 and goodwill in the amount of kEUR 589.

Intangible assets include goodwill, customer relationships, trademarks and capitalised development costs for development projects. Goodwill, customer relationships and trademarks represent acquired intangible assets while development costs stem from internal developments. The recognised goodwill and customer relationships were reported under acquisitions through business combinations. The trademarks relate to the “LactoStop” brand which was acquired in 2014.

Amortisation of intangible assets, excluding impairment charges, with a total value of kEUR 9,211 (2015: kEUR 9,886; 2014: kEUR 13,499) were recorded in 2016.

During the period ended 31 December 2016, no impairment charges on capitalised development costs were recorded in profit or loss (31 December 2015: kEUR 0; 31 December 2014: kEUR 4,673). The value in use of the impaired capitalised development costs in 2014 was nil.

In the financial year 2016, kEUR 8,319 of development costs were capitalised (31 December 2015: kEUR 8,081; 31 December 2014: kEUR 7,345).

At 31 December 2016, intangible assets (mainly medical licences) with a carrying amount of kEUR 2,242 (31 December 2015: kEUR 2,462; 31 December 2014: kEUR 2,363; 1 January 2014: kEUR 2,575) were pledged to different banks in order to provide security for bank loans.

In financial year 2016, no changes were made to the useful lives of internally generated intangible assets (31 December 2015: 0 assets; 31 December 2014: 0 assets).

The impairments relate to specific projects where the revised business expectations indicated that the capitalised amounts were no longer recoverable. The recoverable amount of internally generated intangible assets is determined based on a value-in-use calculation using cash flow projections. Please refer to the section "Impairment testing: capitalised development projects" in this chapter for a detailed overview of the performance of capitalised development cost impairment test.

In the financial year 2014, Hübner Arzneimittel GmbH, a wholly owned subsidiary of Dermapharm, acquired the trademark "LactoStop", which was valued with kEUR 13,138. The trademark has a useful life of nine years resulting in an annual amortisation of kEUR 1,460 (partial amortisation in 2014: kEUR 852). At 31 December 2016, the carrying amount is kEUR 9,366 (31 December 2015: kEUR 10,826; 31 December 2014: kEUR 12,286).

In the financial year 2016, the acquisition of Remedix GmbH resulted in an identified customer relationship of kEUR 2,533 which is amortised over its useful life of seven years (partial amortisation in December 2016: kEUR 273). At 31 December 2016, the carrying amount is kEUR 2,015.

Impairment of goodwill in the amount of kEUR 5,190 as of 31 December 2014 relates to goodwill that was allocated to Cancernova GmbH. After declining revenues in financial year 2014, caused by general market uncertainty as a consequence of re-import forgery, goodwill impairment tests led to a partial impairment of allocated goodwill.

As of 31 December 2015, the company realised an impairment loss of kEUR 5,109. This represents a write-off of the goodwill allocated to Farmal d.d. due to provisions for an indictment filed against the company. As a result of the purchase price allocation conducted for the acquisition of Remedix GmbH through Axicorp GmbH, in which Dermapharm AG holds an 85% interest, Dermapharm recognised additional goodwill of kEUR 589 in 2016 (please refer to 2.7 for more information on the acquisition of Remedix GmbH).

Notes on the annual impairment tests

Goodwill and capitalised development cost were tested for impairment by the Group on an annual basis.

Impairment testing: capitalised development projects

Capitalised development costs which are not yet complete are not amortised but is subject to impairment testing as described below.

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 value in use calculation were derived based on management inputs of key parameters for each project which comprised the total market size, the target market share, the expected go-to-market year, the duration of the ramp-up period, the total lifetime, expected EBIT-margins as well as the percentage of completion as per valuation date. As a result, each development project was valued based on a distinct business plan with cash flow projections and a specific lifetime.

The respective applied discount rate matches the discount rate of Mibe Arzneimittel GmbH and amounts to 7.47% as per 31 December 2014, 6.87% as per 31 December 2015 and 6.38% as per 31 December 2016.

Sensitivity analyses

The results of the test are based mainly on the management assumptions presented. To validate these results, the assumptions made were subjected to sensitivity analyses where the impact of a change in parameters on the values was calculated. Modified assumptions involved pre-tax interest rates and EBIT margins applied in the terminal value.

A 1% increase in the pre-tax interest rates as part of the sensitivity analysis did not result in the need for any impairment charges for the development projects.

Likewise, the sensitivity analysis of the expected EBIT margin showed that the projects do not require an impairment charge in the case of a 2% reduction.

Goodwill impairment tests

The Management Board monitors and manages Group performance based on the different legal entities. The Group defines all legal entities as CGUs which are tested for impairment. As a result, nine CGUs were tested as per 1 January 2014. Of the nine CGUs, two have only negligible goodwill as at the date of transition to IFRS. In the following, detailed information is only presented for the CGUs which have material goodwill as at the reported balance sheet dates.

The recoverable amount of the individual CGUs was determined by calculating the value in use, which is based on the projected cash flows of the individual entities. The cash flow projections underlying the value in use calculation stem from the financial plans for a period of four years as of the respective valuation date as approved by the Management Board and the Supervisory Board.

As the management plans show that the CGUs have not yet reached their steady state as of the end of the period, the reconciliation to the steady state was planned using a three-year transition period. The first year of the transition period is characterised by decreasing growth rates while EBITDA margins were kept constant, in order to transfer the business plans to a steady state status. The remaining two transition periods were already planned with terminal value assumptions, i.e. a growth rate of 1% and constant EBITDA margins. Due discounting effects, recognising the two additional transition periods does not significantly impact the valuations. This state was extrapolated using a perpetual growth rate of 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 growth rates presented reflect average values over the four planning years:

1 January 2014	Mibe Arzneimittel GmbH	Acis Arzneimittel GmbH	Cancernova GmbH	axicorp GmbH	Melasan GmbH	Sun-Farm sp Z.o.o.	Farmal d.d.
Budgeted EBITDA margin	37.90%	33.37%	8.71%	4.13%	22.59%	22.82%	26.50 %
Budgeted EBITDA growth	5.00%	20.33%	20.41%	17.69%	14.63%	37.78%	72.67 %
Discount rate	9.62%	9.26%	9.35%	9.74%	9.26%	11.01%	14.55 %
Goodwill in kEUR	1,700	47	5,190	12,177	673	1,848	5,109
Value in Use in kEUR	425,609	82,880	15,369	116,538	13,134	18,330	23,994
Carrying amount in kEUR	102,900	(2)	8,110	39,666	2,440	4,778	14,386

31 December 2014	Mibe Arzneimittel GmbH	Acis Arzneimittel GmbH	Cancernova GmbH	axicorp GmbH	Melasan GmbH	Sun-Farm sp Z.o.o.	Farmal d.d.
Budgeted EBITDA margin	17.65%	84.05%	3.50%	3.91%	26.99%	20.18%	23.60 %
Budgeted EBITDA growth	6.47%	8.87%	25.81%	17.27%	18.98%	43.33%	41.97 %
Discount rate	10.55%	9.98%	n/a1	10.52%	10.03%	11.84%	15.01 %
Goodwill in kEUR	1,700	47	5,190	12,177	673	1,848	5,109
Value in Use in kEUR	352,263	66,027	4,862	121,951	25,087	15,901	18,767
Carrying amount in kEUR	91,520	(513)	7,633	34,456	2,737	4,803	14,430

31 December 2015	Mibe Arzneimittel GmbH	Acis Arzneimittel GmbH	axicorp GmbH	Melasan GmbH	Sun-Farm sp Z.o.o.	Farmal d.d.
Budgeted EBITDA margin	29.08%	81.36%	3.76%	25.53%	33.11%	5.99%
Budgeted EBITDA growth	9.39%	9.06%	24.66%	12.28%	67.30%	65.40%
Discount rate	9.99%	9.45%	9.92%	9.54%	11.02%	n/a[1]
Goodwill in kEUR	1,700	47	12,177	673	1,848	5,109
Value in Use in kEUR	640,886	63,379	134,398	22,321	46,562	(645)
Carrying amount in kEUR	97,123	(6)	37,334	2,765	4,998	11,874

31 December 2016	Mibe Arzneimittel GmbH	Acis Arzneimittel GmbH	axicorp GmbH	Melasan GmbH	Sun-Farm sp Z.o.o.
Budgeted EBITDA margin	30.87%	24.96%	3.84%	23.51%	27.86%
Budgeted EBITDA growth	5.08%	2.93%	3.35%	11.50%	52.31%
Discount rate	8.48%	8.08%	8.53%	8.91%	9.63%
Goodwill in kEUR	1,700	47	12,766	673	1,848
Value in Use in kEUR	980,608	39,060	116,198	21,997	48,015
Carrying amount in kEUR	107,078	(615)	47,697	3,242	5,317

[1] Since the goodwill for both CGUs is fully impaired due to a negative value in use in the respective year no pre-tax discount rate is available.

Sensitivity analyses

The results of the test are based mainly on the management assumptions presented. To validate these results, the assumptions made were subjected to sensitivity analyses where the impact of a change in parameters on the values was calculated. Modified assumptions involved pre-tax interest rates and EBITDA margins applied at the terminal value.

A 1% increase in the pre-tax interest rates in the sensitivity analysis did not result in the need for any impairment charges for the CGUs.

Likewise, the sensitivity analysis of the expected EBITDA margin showed that the CGUs do not require an impairment charge in the case of a 3% reduction.

4.2 Property, plant and equipment

Property, plant and equipment changed as follows:

kEUR	Land and Buildings including buildings on third party land	Technical equipment and machinery	Other fixed assets and office equipment	Total
Cost				
At 1 January 2016	**48,523**	**29,857**	**16,541**	**94,921**
Exchange differences	21	(8)	(4)	**9**
Additions through business combinations	-	-	37	**37**
Additions	90	3,428	1,532	**5,050**
Disposals	(4)	(330)	(1,274)	**(1,608)**
Transfers	604	(578)	(26)	**-**
At 31 December 2016	**49,234**	**32,369**	**16,806**	**98,409**
Depreciation and impairment				
At 1 January 2016	**12,359**	**18,710**	**10,446**	**41,515**
Exchange differences	19	(4)	3	**18**
Additions	1,537	1,730	1,625	**4,892**
Additions (impairment)	-	-	-	**-**
Disposals	(3)	(203)	(1,167)	**(1,373)**
Transfers	-	-	-	**-**
At 31 December 2016	**13,912**	**20,233**	**10,907**	**45,052**
Carrying amount				
At 31 December 2015	**36,164**	**11,147**	**6,095**	**53,406**
At 31 December 2016	**35,322**	**12,136**	**5,899**	**53,357**

kEUR	Land and Buildings including buildings on third party land	Technical equipment and machinery	Other fixed assets and office equipment	Total
Cost				
At 1 January 2015	**48,460**	**32,181**	**16,132**	**96,773**
Exchange differences	117	2	39	**158**
Additions through business combinations	-	-	-	**-**
Additions	18	2,275	900	**3,193**
Disposals	(537)	(1,276)	(3,390)	**(5,203)**
Transfers	465	(3,325)	2,860	**-**
At 31 December 2015	**48,523**	**29,857**	**16,541**	**94,921**
Depreciation and impairment				
At 1 January 2015	**11,560**	**18,946**	**9,720**	**40,226**
Exchange differences	107	2	33	**142**
Additions	1,462	2,040	1,671	**5,173**
Additions (impairment)	-	-	-	**-**
Disposals	(258)	(1,061)	(2,707)	**(4,026)**
Transfers	(512)	(1,217)	1,729	**-**
At 31 December 2015	**12,359**	**18,710**	**10,446**	**41,515**

Carrying amount				
At 31 December 2014	**36,900**	**13,235**	**6,412**	**56,547**
At 31 December 2015	**36,164**	**11,147**	**6,095**	**53,406**

kEUR	Land and Buildings including buildings on third party land	Technical equipment and machinery	Other fixed assets and office equipment	Total
Cost				
At 1 January 2014	**48,674**	**31,961**	**15,921**	**96,556**
Exchange differences	-	(29)	-	**(29)**
Additions through business combinations	-	-	-	**-**
Additions	1,054	3,832	1,381	**6,267**
Disposals	(1,798)	(2,787)	(1,436)	**(6,021)**
Transfers	530	(796)	266	**-**
At 31 December 2014	**48,460**	**32,181**	**16,132**	**96,773**
Depreciation and impairment				
At 1 January 2014	**10,950**	**18,473**	**9,781**	**39,204**
Exchange differences	27	(11)	(3)	**13**
Additions	1,541	2,063	1,323	**4,927**
Additions (impairment)	-	-	-	**-**
Disposals	(958)	(1,579)	(1,381)	**(3,918)**
Transfers	-	-	-	**-**
At 31 December 2014	**11,560**	**18,946**	**9,720**	**40,226**

Carrying amount				-
At 1 January 2014	**37,724**	**13,488**	**6,140**	**57,352**
At 31 December 2014	**36,900**	**13,235**	**6,412**	**56,547**

In financial year 2016, the Group acquired a 75% stake in Remedix GmbH; for further details please refer to 2.7. This transaction resulted in an increase in the accumulated cost of other fixed assets and office equipment of kEUR 37.

Property, plant and equipment comprises land and buildings, technical equipment and machinery and other fixed assets and office equipment.

Indications of impairment pursuant to IAS 36 were not present at the date of these financial statements.

During the period ended 31 December 2016, depreciation in the amount of kEUR 4,892 was recorded in profit or loss (31 December 2015: kEUR 5,173; 31 December 2014: kEUR 4,927).

Finance lease assets changed as follows:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Technical equipment and machinery	-	143	250	356
Other equipment, factory and office equipment	279	246	237	109
Net carrying amount of leased assets	**279**	**389**	**487**	**465**

For further details regarding obligations from finance leases, please refer to section 7.2a).

4.3 Investments measured at equity

Two associates (31 December 2015: 2; 31 December 2014: 1; 1 January 2014: 1) were accounted for in the consolidated financial statements using the equity method.

Company Name	Place of Business	Share in capital (%)
31 December 2016		
Hasan Dermapharm Co.Ltd.	Binh Duong Province, Vietnam	30.0
Gynial GmbH	Vienna, Austria	25.1
31 December 2015		
Hasan Dermapharm Co.Ltd.	Binh Duong Province, Vietnam	30.0
Gynial GmbH	Vienna, Austria	25.1
31 December 2014		
Hasan Dermapharm Co.Ltd.	Binh Duong Province, Vietnam	30.0
1 January 2014		
Hasan Dermapharm Co.Ltd.	Binh Duong Province, Vietnam	30.0

Gynial GmbH, Vienna, Austria:

Dermapharm GmbH, Vienna, acquired 25.1% of Gynial GmbH, Vienna, in 2015. Gynial focuses on the physical health and the well-being of women with an emphasis on prophylactic measures. Due to its long-standing activities for Shering AG, Gynial's management team has extensive expertise in this sector. Gynial is purely a sales company and has no production facility. Its strategic objective is to shift existing job order productions with third party suppliers gradually to mibe GmbH, which already has a manufacturing area for contraceptives, thus expanding value creation to production. Furthermore, Gynial GmbH can benefit from future developments of the Group within the women's health sector.

The following table summarises Gynial GmbH's financial information as presented in its own financial statements:

kEUR	31 December 2016	31 December 2015
Percentage ownership interest (%)	25.1	25.1
Non-current assets	319	286
Current assets	1,016	951
Non-current liabilities	0	100
Current liabilities	738	809
Net assets (100%)	597	328
Carrying amount of interest in associate	**1,163**	**1,095**
Revenue	4,231	3,693
Profit / Loss after Tax (100%)	269	345
Group's share of total comprehensive income	**67**	**86**

Hasan Dermapharm Co. Ltd, Saigon, Vietnam:

In 2007, Dermapharm 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 drugs sold on the Vietnamese market. The cooperation with Hasan Pharma should serve as a platform for entering the Asian market. Initially, the focus will be on Vietnam itself, but subsequently the focus would be expanded to countries like Singapore, Malaysia and

Cambodia. Dermapharm's contribution is the delivery of dossiers, which will be adjusted to Vietnamese standards and submitted to the local regulatory authority. Following approval, local production will start; however, preparations that have been produced under license are distributed at higher prices than products produced only locally.

The following table summarises Hasan Dermapharm Co. Ltd.'s financial information as presented in its own financial statements:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Percentage ownership interest	30	30	30	30
Non-current assets	4,307	4,707	4,956	3,979
Current assets	6,181	5,286	5,826	6,657
Non-current liabilities	0	0	0	0
Current liabilities	504	641	566	1,453
Net assets (100%)	9,984	9,352	10,217	9,183
Carrying amount of interest in associate	**2,034**	**1,563**	**1,628**	**2,755**
Revenue	13,698	12,476	12,724	10,915
Profit / Loss after Tax (100%)	3,977	2,794	3,294	3,421
Group's share of total comprehensive income	**1,193**	**838**	**988**	**1,026**
Exchange rate	29,340	26,354	24,844	29,340

4.4 Investments

Investments comprise interests in non-consolidated subsidiaries and associates, which are not accounted for using the equity method.

As at 31 December 2016, the Group held 100% of the shares in Tiroler Nussöl Sonnenkosmetik GmbH, Kitzbühel, Austria, 40% of shares in Gynial AG, Hünenberg, Switzerland, and 100% of shares in East Pharma AG, Grünwald. The interests are deemed immaterial and thus their not being consolidated results in a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. As at 31 December 2016, interests in non-consolidated subsidiaries and associates, which are not accounted for using the equity method, have a carrying amount of kEUR 262 (31 December 2015: kEUR 218; 31 December 2014: kEUR 461; 1 January 2014: kEUR 797). The investments qualify as available-for-sale financial assets under IAS 39. They thus have to be measured at fair value in the statement of financial position. However, since the fair value of these investments could not be measured reliably, they are measured at cost less impairment charges. Dermapharm has no intention to dispose these investments.

4.5 Other non-current financial assets

Other non-current financial assets includes positive fair values of derivatives and capitalised life insurance contracts by Anton Hübner GmbH & Co. KG. The positive fair values of derivatives recognised mainly result from a claim that Dermapharm AG has against Themis Beteiligungs AG to compensate for all future payments pertaining to two currency-related swaps which Dermapharm AG concluded with Unicredit Bank in 2010. The swaps will expire in 2018 and 2020, respectively.

The positive fair values of held-for-trading derivatives recognised amounted to kEUR 10,125 as of 31 December 2016 (31 December 2015: kEUR 13,314; 31 December 2014: kEUR 8,779; 1 January 2014: kEUR 9,242). The corresponding negative fair value of the derivative is recognised in other non-current financial liabilities. In connection with the currency-related swaps, Dermapharm AG has filed a lawsuit against Unicredit Bank. For further information, please refer to 7.2c).

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 kEUR 523 as at 31 December 2016 (31 December 2015: kEUR: 527; 31 December 2014: kEUR 426; 1 January 2014: kEUR 399) is taken from an expert opinion.

Furthermore, other non-current financial assets comprise deposits amounting to kEUR 10,648 as at 31 December 2016 (31 December 2015: kEUR 13,841; 31 December 2014: kEUR 9,205; 1 January 2014: kEUR 9,641).

4.6 Inventories

Inventories consist of the following:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Raw materials	30,775	24,519	22,394	27,591
Work in progress	6,807	5,650	3,087	3,100
Finished products and merchandise	47,000	46,743	45,665	36,825
Prepayments	197	45	370	726
Inventories	**84,779**	**76,957**	**71,516**	**68,242**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated sales price less all estimated costs to complete and selling and marketing costs.

The costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories changed as follows:

kEUR	2016	2015	2014
Cost of material	(252,755)	(215,911)	(237,076)
Net Increase in finished goods and work in progress	1,008	2,888	8,301
Expenses of the period	**(251,747)**	**(213,023)**	**(228,775)**

In the financial years 2016, 2015 and 2014, write-downs of inventories had be to recognised for the destruction of expired finished goods, destruction due to quality shortcomings in raw materials and other defects.

kEUR	2016	2015	2014
Raw Materials	732	447	767
Finished Products and merchandise and work in progress	2,233	4,782	1,506
Write-downs of the period	**2,965**	**5,229**	**2,273**

The write-downs of inventories are recognised as decrease in finished goods and work in process.

No inventories were pledged as securities for liabilities at the end of financial years 2016, 2015 and 2014.

4.7 Trade accounts receivable

All trade receivables are due within one year and do not bear interest. The accounts receivable are in general due within a payment period of between 30 and 120 days. There are no limitations of any kind on rights of disposal.

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Trade receivables	26,541	17,665	23,032	22,666
Less: provision for impairment of trade receivables	(239)	(242)	(241)	(278)
Trade receivables net	**26,302**	**17,423**	**22,791**	**22,388**

As of 31 December 2016, trade receivables of kEUR 22,913 (31 December 2015: kEUR 14,480; 31 December 2014: kEUR 18,708; 1 January 2014: kEUR 18,893) were fully performing.

As of 31 December 2016, trade receivables of kEUR 3,378 (31 December 2015: kEUR 2,929; 31 December 2014: kEUR 4,069; 1 January 2014: kEUR 3,454) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The maturity analysis of these trade receivables is as follows:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Up to 1 month	1,780	1,290	1,683	2,048
1 to 2 Months	331	272	492	306
2 to 3 months	247	(30)	1,001	209
Over 3 Months	1,020	1,397	893	891
Total	**3,378**	**2,929**	**4,069**	**3,454**

The Group companies in Germany have a solvent customer base with high credit ratings, and defaults among them are extremely rare. For all of the overdue receivables, instalments have been agreed upon, which were/will all be paid.

As of the balance sheet date, there were some debtors which were not able to meet their payment obligations.
Past due and impaired trade receivables consisted of the following:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Up to 1 month	-	-	-	-
1 to 2 Months	-	-	-	-
2 to 3 months	-	-	-	-
Over 3 Months	250	256	255	319
Total	**250**	**256**	**255**	**319**

Only those receivables are impaired where the customer is already insolvent or where the customer has filed for insolvency.

The carrying amounts of the Group's trade receivables were denominated in the following currencies:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
EUR	22,915	15,038	18,558	17,352
CHF	188	309	360	456
HRK	2,112	1,209	3,191	4,096
PLN	1,326	1,109	923	762

The Group's provision for impairment of trade receivables changed as follows:

kEUR	2016	2015	2014
At 1 January	(242)	(241)	(278)
Provision for receivables impairment	-	(1)	-
Receivables written off during the year as uncollectible	3	-	37
Unused amounts reversed	-	-	-
At 31 December	**(239)**	**(242)**	**(241)**

4.8 Other current assets and other current financial assets

The other current assets consisted of the following:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Receivables from related parties	39,809	42,400	58,638	82,589
Suppliers with debit balances	130	66	-	418
Deposits	30	29	120	120
Derivatives	7	4	52	182
Other current financial assets	**39,976**	**42,499**	**58,810**	**83,309**
Prepaid expenses	1,022	638	698	772
VAT receivables	139	485	770	889
Refund Claims	138	168	323	632
Receivables from personnel	46	63	52	63
Receivables from social security	22	22	15	25
Government grants	-	-	228	251
Other	325	69	957	300
Other current assets	**1,692**	**1,445**	**3,043**	**2,932**

Prepaid expenses consist of payments made for services not rendered until after the balance sheet date.
Other current financial assets comprise the fair values of foreign exchange forwards and options entered into by Axicorp GmbH, which will be settled within one year.

As at 31 December 2015, receivables from related parties amounting to kEUR 42,400 were recognised, whereof receivables from the sale of companies amounting to kEUR 6,534 were past due but not impaired. The receivable results from the sale of shares between Centuere AG and Channel 21 Holding. All other receivables from related parties were fully performing. For detailed information regarding the receivables from related parties, please refer to 8.

The receivables from government grants recognised in other current assets as at 31 December 2014 (kEUR 228) and 31 December 2013 (kEUR 251) relate to an assured but not yet received grant.

4.9 Cash and cash equivalents

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Cash at banks and cash equivalents	3,806	2,774	11,627	4,125
Cash on hand	10	17	18	540
Cash and cash equivalents	**3,816**	**2,791**	**11,645**	**4,665**

The Group maintains credit facilities with various German and international banks. For information about the utilisation of these credit facilities at the respective balance sheet date, please refer to 6.1c).

4.10 Equity

The issued capital of the parent company consists of 524,800 registered shares with restricted transferability and a par value of EUR 2.56, with one share representing one voting right. Preference shares or different classes of shares do not exist. The issued capital is fully paid in.

The capital reserve includes the premium from the issuing of shares.

Retained earnings are the result of profits and losses carried forward from the previous reporting periods and the profit for the 2016 period. Effects from the first time adoption of IFRS were also included in retained earnings.

Other reserves contain kEUR 1,801 in currency translation differences as at 31 December 2016 (31 December 2015: kEUR 1,852; 31 December 2014: kEUR 313; 1 January 2014: kEUR 0) and kEUR -3,104 in cumulated actuarial gains/losses from the remeasurement of defined benefit pension plans (31 December 2015: kEUR -2,046; 31 December 2014: kEUR -2,527; 1 January 2014: kEUR 0). Moreover, as at 31 December 2016, deferred taxes of kEUR 352 were recognised in other comprehensive income in the amount of kEUR 351 for actuarial gains/losses from the remeasurement of defined benefit pension plans (31 December 2015: kEUR 247; 31 December 2014: kEUR 283; 1 January 2014: kEUR 0).

In 2015, Dermapharm GmbH, Vienna, Austria, increased its stake in Melasan GmbH, Salzburg, Austria, by 25% to 100% for kEUR 1,850 in cash, which was paid in financial year 2016. Melasan GmbH had already been fully consolidated in the prior year when Dermapharm held a 75% stake in the company. There is no change in the basis of consolidation or presentation in the IFRS consolidated financial statements. The carrying amount of Melasan GmbH's net assets in the Group's consolidated financial statements on the date of acquisition was kEUR 1,930. The Group recognised a decrease in NCI of kEUR 483 and a decrease in retained earnings of kEUR 1,367.
The Group also acquired an additional stake of 2.9% in Farmal d.d., Ludberg, Croatia, in 2015 and increased its stake to 100% for kEUR 93 in cash. Farmal d.d. had already been fully consolidated in the prior year when the Group held a 97.1% stake in the company. There is no change in the basis of consolidation or presentation in the IFRS consolidated financial statements. The carrying amount of Farmal d.d.'s net assets in the Group's consolidated financial statements on the date of acquisition was kEUR -10,369. The Group recognised an increase in NCI of kEUR 301 and a decrease in retained earnings of kEUR 403.

In February 2016, the Group acquired 75.1% of Remedix GmbH. As a result of this transaction, the Group recognised an increase in NCI of kEUR 283. Please also refer to section 2.7 for further details.

For information on the change in equity, please refer to the consolidated statement of changes in equity.

4.11 Provisions for pensions

The amount of the provisions for pensions recognised as of the reporting date for the company with plan assets is as follows:

Net defined benefit liability with plan assets:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Defined benefit obligation	799	713	751	556
Fair Value of plan assets	495	556	575	544
Limit on a defined benefit asset	-	-	-	-
Total	**304**	**157**	**176**	**12**

The amount of the provisions for pensions recognised as of the reporting date for the companies without plan assets is as follows:

Net defined benefit liability without plan assets:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Defined benefit obligation	12,946	11,924	12,269	9,732
Total	**12,946**	**11,924**	**12,269**	**9,732**

Expenses for defined benefit plans were as follows:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Current service cost	159	170	133	-
Past service cost	-	-	-	-
Net interest	283	267	345	-
Administration cost	-	-	-	-

The following table shows the reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

kEUR	Defined Benefit Obligation	Fair Value of plan assets	Net defined benefit liability
As of 1 January 2014	**10,289**	**544**	**9,744**
Profit or Loss			
Current service cost	133	-	133
Past service cost	-	-	-
Gains (-) / losses from settlements	-	-	-
Interest expense	364	-	364
Interest income	-	19	(19)
Remeasurement			
Actuarial Gain (-) / Loss (+)			
thereof due to changes in financial assumptions	2,626	-	2,626
thereof due to changes in demographic assumptions	-	-	-
thereof due to experience adjustments	(97)	-	(97)
Return on plan assets excluding amounts recognised as interest income	-	2	(2)
Remeasurement of asset ceiling	-	-	-

Others			
Transfers	-	-	-
Acquisitions / Divestments (-)	-	-	-
Employer contributions	-	13	(13)
Employee contributions	-	15	(15)
Plan assets administration cost	-	-	-
Taxes and duties	-	-	-
Settlement service	-	-	-
Retirement benefits	(294)	(19)	(275)
As of 31 December 2014	**13,020**	**575**	**12,445**

kEUR	**Defined Benefit Obligation**	**Fair Value of plan assets**	**Net defined benefit liability**
As of 1 January 2015	**13,020**	**575**	**12,445**
Profit or Loss			
Current service cost	170	-	170
Past service cost	-	-	-
Gains (-) / losses from settlements	-	-	-
Interest expense	279	-	279
Interest income	-	12	(12)
Remeasurement			
Actuarial Gain (-) / Loss (+)			
thereof due to changes in financial assumptions	(423)	-	(423)
thereof due to changes in demographic assumptions	-	-	-
thereof due to experience adjustments	(33)	-	(33)
Return on plan assets excluding amounts recognised as interest income	-	23	(23)
Remeasurement of asset ceiling	-	-	-
Others			
Transfers	-	-	-
Acquisitions / Divestments (-)	-	-	-
Employer contributions	-	12	(12)
Employee contributions	-	15	(15)
Plan assets administration cost	-	-	-
Taxes and duties	-	-	-
Settlement service	-	-	-
Retirement benefits	(376)	(82)	(294)
As of 31 December 2015	**12,636**	**556**	**12,080**

kEUR	**Defined Benefit Obligation**	**Fair Value of plan assets**	**Net defined benefit liability**
As of 1 January 2016	**12,636**	**556**	**12,080**
Profit or Loss			
Current service cost	159	-	159
Past service cost	-	-	-
Gains (-) / losses from settlements	-	-	-
Interest expense	296	-	296
Interest income	-	13	(13)
Remeasurement			

Actuarial Gain (-) / Loss (+)			
thereof due to changes in financial assumptions	1,185	-	1,185
thereof due to changes in demographic assumptions	-	-	-
thereof due to experience adjustments	(194)	-	(194)
Return on plan assets excluding amounts recognised as interest income	-	(66)	66
Remeasurement of asset ceiling	-	-	-
Others			
Transfers	-	-	-
Acquisitions / Divestments (-)	-	-	-
Employer contributions	-	9	(9)
Employee contributions	-	10	(10)
Plan assets administration cost	-	-	-
Taxes and duties	-	-	-
Settlement service	-	-	-
Retirement benefits	(338)	(28)	(310)
As of 31 December 2016	**13,745**	**495**	**13,250**

There were no exchange differences because all provisions for pensions were realised within German entities.

Composition of plan assets:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Security funds	495	556	575	544
Total	**495**	**556**	**575**	**544**

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 surviving dependents, pensions, longer claim periods or 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 were below the return anticipated on the basis of the discount rate, the net defined benefit liability would increase, assuming there were no changes in other parameters. This could happen as a result of a drop in share prices, increases in market rates of interest, default of individual debtors or the purchase of low-risk but low-interest bonds, for example.

Interest-rate risks:

A decline in capital market interest rates, especially for high-quality corporate bonds, would increase the defined benefit obligation. This effect would be at least partially offset by the ensuing increase in the market values of the debt instruments held.

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages):

in %	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Discount rate	1.7	2.2	2.0	3.4
Salary trend	0.7	0.7	0.7	0.7
Pension trend	2.3	2.3	2.3	2.3

The sensitivity of the total pension commitments to changes in the average assumptions is as follows:

Defined Benefit Obligation	Changes in Actuarial assumptions	Impact 31 December 2016		Impact 31 December 2015		Impact 31 December 2014		Impact 1 January 2014	
kEUR		DBO	Change	DBO	Change	DBO	Change	DBO	Change
Discount rate	1,00% increase	11,702	(2,043)	10,806	(1,830)	11,056	(1,964)	8,400	(1,332)
	1,00% decrease	16,378	2,633	14,985	2,348	15,560	2,540	11,423	1,691
Salary trend	0,50% increase	13,632	38	12,514	36	12,890	41	9,592	30
	0,50% decrease	13,558	(36)	12,444	(34)	12,809	(39)	9,535	(28)
Pension trend	0,50% increase	14,440	846	13,226	748	13,632	783	10,087	5,239
	0,50% decrease	12,820	(774)	11,792	(686)	12,130	(718)	9,080	(483)
Life expectancy	1 year increase	13,852	107	12,729	93	13,119	98	9,786	53
	1 year decrease	12,866	(80)	11,853	(71)	12,195	(75)	9,678	(54)

As of 31 December 2016, the weighted duration of the pension obligations amounts to 14 years (31 December 2015: 14 years; 31 December 2014: 14 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.

4.12 Other provisions

	Current		Non-current	
kEUR	**discounts to health insurance**	**Litigations**	**Onerous Contracts**	**Total**
At 1 January 2014	**4,875**	**694**	**64**	**5,633**
Additions	5,482	640	78	**6,200**
Release	-	-	-	**0**
Utilisation	(4,875)	(693)	(64)	**(5,632)**
Exchange differences	-	(5)	-	
At 31 December 2014	**5,482**	**636**	**78**	**6,196**

At 1 January 2015	**5,482**	**636**	**78**	**6,196**
Additions	5,950	456	-	**6,406**
Release	-	-	-	**0**
Utilisation	(5,482)	(642)	(78)	**(6,202)**
Exchange differences	-	5	-	**5**
At 31 December 2015	**5,950**	**455**	**-**	**6,405**
At 1 January 2016	**5,950**	**455**	**-**	**6,405**
Additions	6,418	534	-	**6,952**
Release	-	-	-	**0**
Utilisation	(5,950)	(458)	-	**(6,408)**
Exchange differences	-	2	-	**2**
At 31 December 2016	**6,418**	**533**	**-**	**6,951**

Other provisions include provisions for discounts to health insurances, provisions for litigations and provisions for onerous contracts.

As a consequence of regulatory state interventions on the pharmaceutical market in Germany, the Group companies are obliged to negotiate discount agreements with health insurance organisations.

Expenses from the creation of these provisions are considered in sales and charged against income. For this purpose, expenses are estimated based on the relevant underlying two-year discount agreement and information gathered from a database, which tracks the historical volumes of drugs reimbursed by each insurance company. Actual expenses for these discounts may differ from the estimate and sales would accordingly be higher or lower. Billing of the discounts and thus utilisation of provisions for discounts to health insurance is generally expected within the next twelve months.

Provisions for litigations mainly refer to the estimated financial outcome due to an indictment filed by the Croatian governmental agency “USKOK” against Farmal d.d. regarding criminal activities involving bribery in 2012. In 2015, Farmal d.d. was ordered to pay a fine which resulted in the full utilisation of the provision in the following years. Furthermore, another provision for litigation is recognised for a compensation claim of a former employee of Farmal d.d.

Provisions for onerous contracts were recognised for vacancy costs for a building rented by Axicorp ApS in Denmark.

4.13 Financial liabilities

The principle sources of liquidity were cash inflows from on-going business operations as well as short-, medium- and long-term loans.

Non-current financial liabilities:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Bank loans	2,713	12,466	22,228	38,531
Promissory note loans	87,680	127,514	127,984	50,995
Leasing liabilities	143	137	337	324
Participation rights	6,360	10,956	10,981	10,981
Non-current financial liabilities	**96,896**	**151,073**	**161,530**	**100,831**

Current financial liabilities:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Bank loans	14,660	9,997	13,113	16,525
Promissory note loans	40,413	916	600	600
Leasing liabilities	112	235	189	151
Participation rights	5,831	1,323	1,318	1,318
Bank overdrafts	4,867	12,435	5,162	33,524
Current financial liabilities	**65,883**	**24,906**	**20,382**	**52,118**

For the long-term financing of the Group, Dermapharm took out a promissory note loan in 2012 and another one in 2014, for nominal values amounting to kEUR 50,000 and kEUR 78,000, respectively. The notes mature in 2017, 2019 and 2021. This enables the Group to secure the current extremely low interest rates for the coming years as well.

Dermapharm has also issued participation rights, which mature in 2017 and 2018. Throughout their term, participation certificate holders receive constant guaranteed remuneration as well as a potential profit share of 2% of the nominal amount, while also participating in any losses up to the nominal amount.

4.14 Trade accounts payable

Trade accounts payables become due within one year and do not bear interest. The item also includes all trade payables not invoiced as of the balance sheet date. They generally become due for payment within 0 to 60 days.

4.15 Other non-current liabilities

Other non-current financial liabilities mainly comprise the fair values of held-for-trading derivatives. As mentioned in 4.4, Dermapharm AG recognises the negative fair value of two currency-related swaps within other non-current financial liabilities. Moreover, other non-current financial liabilities include the negative fair values of interest rate swaps. The negative fair value of derivatives amounted to kEUR 10,464 as at 31 December 2016 (31 December 2015: kEUR 14,050; 31 December 2014: kEUR 9,946; 1 January 2014: kEUR 10,491).

Other non-current liabilities mainly comprise government grants. The government grants relating to assets are presented as deferred income in accordance with IAS 20.24 and had a carrying amount of kEUR 11,495 as of 31 December 2016 (31 December 2015: kEUR 13,232; 31 December 2014: kEUR 15,469; 1 January 2014: kEUR 18,826).

4.16 Other current liabilities and other current financial liabilities

The other current financial liabilities and the other current liabilities were composed as follows:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Liabilities to related parties	4,278	470	28,448	77,555
Derivatives	18	67	157	41
Purchase price liability	-	1,850	-	-
Earn out liabilities	-	-	2,000	-
Other	7	2	-	-

Other current financial liabilities	**4,303**	**2,389**	**30,605**	**77,596**
VAT payables	5,073	2,295	4,394	1,057
Other personnel-related liabilities	3,128	2,487	2,385	2,107
Government grants	1,737	2,238	3,357	2,323
Prepayments received	340	332	46	91
Prepaid income	86	164	208	110
Other	619	705	1,053	1,837
Other current liabilities	**10,983**	**8,221**	**11,443**	**7,525**

Other current liabilities have a maturity of up to one year and do not bear interest. For further information concerning the liabilities to related parties, please refer to 8.

Derivatives comprise the negative fair values of foreign exchange forwards and options entered into by Axicorp GmbH to hedge the risk from exchange rate fluctuations. The earn-out liability of kEUR 2,000 as at 31 December 2014 was recognised in the course of the acquisition of Naturwohl Vertriebs GmbH (LactoStop). The prerequisites for the payment were fulfilled in financial year 2015 and the payment was made to the former shareholder in the same year.

Current government grants comprise the portion of government grants which will be reversed in the course of the next 12 months.

Prepaid income relates to payments that have been received, but were not delivered.

Personnel-related liabilities comprise holiday accruals, income and church taxes due, liabilities for bonuses and company pensions and other submissions related to personnel.

4.17 Income taxes and deferred taxes

Income taxes include taxes on income and earnings paid or owed in the individual countries as well as deferred tax assets or liabilities.

The significant components of income tax expenses for the financial years 2016, 2015 and 2014 were composed as follows:

kEUR	**2016**	**2015**	**2014**
Current income taxes			
Current income taxes	3,409	1,878	2,395
Subtotal	3,409	1,878	2,395
Deferred taxes			
From temporary differences	2,043	1,042	(151)
From tax loss carried forward	419	-	-
Subtotal	2,462	1,042	(151)
Total income taxes	**5,871**	**2,920**	**2,244**

For the calculation of the current taxes as well as deferred tax assets and liabilities for the foreign subsidiaries, tax rates of between 12% and 29% were applied. In calculating deferred tax assets and liabilities, the tax rates valid at the time of realising the asset or repaying the liability were applied. The Group's deferred tax assets and liabilities were measured on the basis of Dermapharm AG's total tax rate of 24.23% for all financial years presented.

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.

Deferred income taxes in the financial years 2016, 2015 and 2014 were as follows:

kEUR	2016	2015	2014
Earnings before taxes	82,866	55,299	35,487
Expected income tax expense	**19,018**	**12,481**	**8,190**
Utilisation of tax loss carried forward	(1,283)	(42)	(25)
Non-deductible operating expenses	211	343	174
Tax-exempt income	(276)	(65)	(387)
Taxes for previous years	-	29	-
Consideration of tax group	(12,599)	(11,701)	(5,756)
Difference to Group tax rate	1,994	2,099	1,326
Other deviations	67	(342)	(172)
Adjustment of annual profit §60 (2) EStDV	(1,256)	(830)	(1,804)
Non-utilisation of tax loss carried forwards	-	-	624
Interest barrier	(6)	(9)	75
Non-utilisation of deferred taxes	-	959	-
Accounting deferred taxes HGB	-	-	-
Effective income tax expense	**5,871**	**2,920**	**2,244**
Expected income tax rate (in %)	22.95%	22.57%	23.08%
Effective income tax rate (in %)	7.08%	5.28%	6.32%

The expected income tax expense is the tax calculated at domestic tax rates applicable to profits in the respective countries. The expected Group tax rate for a given year is determined by averaging out the individual tax rates to which all the companies included in the consolidated financial statements are subjected. The tax rate was 22.95% in 31 December 2016 (31 December 2015: 22.57%; 31 December 2014: 23.08%).

The low effective income tax rates result from the tax group with Themis Beteiligungs AG, where Themis Beteiligungs AG is the taxpaying entity.

Deferred income tax at the balance sheet dates was as follows:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	1,508	2,049	957	514
Deferred tax asset to be recovered within 12 months	218	28	124	-
Total deferred tax assets	**1,725**	**2,077**	**1,081**	**514**
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months	(4,872)	(2,240)	(129)	(42)
Deferred tax liability to be recovered within 12 months	-	-	-	-

Total deferred tax assets	**(4,872)**	**(2,240)**	**(129)**	**(42)**
thereof recognised as deferred tax assets	**218**	**28**	**952**	**472**
thereof recognised as deferred tax liabilities	**(3,365)**	**(191)**	**-**	**-**

Reconciliation of tax expense and the accounting loss for the periods ended 31 December 2016, 2015 and 2014:

kEUR	1 January 2014	P&L	OCI	31 December 2014	Def. tax assets	Def. tax liabilities
Intangible assets	-	(87)	-	(87)	-	(87)
Finance Lease	(3)	-	-	(3)		(3)
Other current financial assets	(39)	66	-	27	69	(42)
Defined benefit obligations and other accrued employee benefits	514	94	283	891	888	3
Other provisions	-	6	-	6	6	-
Interim result	-	118	-	118	118	-
Tax assets/liabilities	**472**	**198**	**283**	**952**	**1,081**	**(129)**

kEUR	1 January 2015	P&L	OCI	31 December 2015	Def. tax assets	Def. tax liabilities
Intangible assets	(87)	(1,782)	-	(1,869)	296	(2,165)
Finance Lease	(3)	-	-	(3)	-	(3)
Investments	-	675	-	675	675	-
Investments measured at equity	-	(22)	-	(22)	-	(22)
Other current financial assets	27	(50)	-	(23)	29	(53)
Defined benefit obligations and other accrued employee benefits	891	198	(38)	1,051	1,048	3
Other provisions	6	12	-	18	18	-
Interim result	118	(108)	-	10	10	
Tax assets/liabilities	**952**	**(1,077)**	**(39)**	**(163)**	**2,077**	**(2,240)**

kEUR	1 January 2016	P&L	OCI	31 December 2016	Def. tax assets	Def. tax liabilities
Intangible assets	(1,869)	(2,908)	-	(4,776)	4	(4,781)
Finance Lease	(3)	-	-	(3)	-	(3)
Investments	675	(675)	-	-	-	-
Investments measured at equity	(22)	(17)	-	(38)	-	(38)
Other current financial assets	(23)	(12)	-	(35)	18	(53)
Defined benefit obligations and other accrued employee benefits	1,051	(25)	105	1,131	1,128	3
Other provisions	18	10	-	28	28	-
Interim result	10	118	-	129	129	-
Deferred taxes on tax loss carried forward	-	419	-	419	419	-
Tax assets/liabilities	**(163)**	**(3,089)**	**105**	**(3,147)**	**1,725**	**(4,872)**

The deferred taxes mainly arise from capitalised development costs. This effect of kEUR 4,203 in 2016 (2015: kEUR 2.167; 2014 kEUR 87) can be traced back to mibe GmbH. The subsidiary is in a tax group with Dermapharm, but the respective tax effect cannot be transferred to Themis Beteiligungs AG through Dermapharm since German tax law prohibits the distribution of effects resulting from capitalised development costs.

As of 31 December 2016, the Group carried forward tax losses in Germany of kEUR 419. These tax losses arose from Remedix GmbH in 2016 after acquisition of this entity.

In financial years 2014 and 2016, Dermapharm is the parent company of a tax group with a variety of German subsidiaries. Simultaneously, Dermapharm has a profit-and-loss transfer agreement and a tax group with its parent company Themis Beteiligungs AG. In the respective financial years 2014 and 2016, the substantial portion of tax expenses is transferred to Themis Beteiligungs AG.

In financial year 2015, the profit-and-loss transfer agreement between Dermapharm and the parent company, Themis Beteiligungs AG, was terminated. Due to this fact, the tax group with Themis dissolved for 2015 and deferred taxes had to be recognised. As of 1 January 2016, a new profit-and-loss transfer agreement with the same subsidiaries as in the previous agreement was concluded. The tax group was reinstated. As a result, deferred taxes amounting to kEUR 1,055 were recognised in 2015 and were reversed in 2016.

No deferred tax liabilities were recognised on temporary differences in connection with interests in subsidiaries. A deferred tax asset on the tax loss carryforwards of Remedix GmbH, which was acquired in 2016, was recognised. For the subsidiary Farmal d.d. no deferred taxes on tax loss carryforwards were recognised since it is unlikely that these differences will be reversed in the near future. For 2016, the total tax loss carried forward amounts to kEUR 12,317(2015: kEUR 10,933; 2014 kEUR 7,606).

5. Notes to the consolidated statement of comprehensive income

5.1 Revenue

Revenue at Dermapharm Group resulted solely from the supply of products.

In the period ended 31 December 2016, consolidated revenue of kEUR 413,099 was recognised in Germany (2015: kEUR 360,895; 2014: kEUR 370,775). The revenues realised in Germany made up for 93% of total revenue.

The Austrian and Swiss subsidiaries (central Europe region) realised third party revenues amounting to kEUR 20,083 in 2016 (2015: kEUR 18,817; 2014: kEUR 13,929).

The Dermapharm Group companies that are operating in eastern Europe contributed kEUR 11,295 in 2016 (2015: kEUR 5,134; 2014: kEUR 6,635) to consolidated revenue.

5.2 Other operating income

kEUR	2016	2015	2014
Government grants	2,238	3,357	2,399
Insurance refunds and damage compensation	1,661	113	148
Reversal of provisions, including provisions on impairment of trade receivables	741	706	293
Income from disposals	417	621	217
Foreign exchange gains	197	494	797
Miscellaneous	4,662	4,653	2,367
Total other operating income	**9,916**	**9,944**	**6,221**

The increase in insurance refunds and damage compensation in 2016 can mainly be traced back to a damage compensation awarded by court to Mibe GmbH amounting to kEUR 1,003.

5.3 Personnel expenses and numbers of employees

Personnel expenses comprise of the following:

kEUR	2016	2015	2014
Wages and salaries	49,766	46,722	48,505
Social security expenses	8,794	8,981	9,087
Termination benefits	189	36	84
Personnel expenses	**58,749**	**55,739**	**57,676**

In financial year 2016, expenses for pension schemes in the amount of kEUR 404 (2015: kEUR 335; 2014: kEUR 586) were recorded in personnel expenses and included in social security expenses in the table above.

In 2016, a total of kEUR 185 (2015: kEUR 231; 2014: kEUR 252) was spent on employer contributions to defined contribution plans.

5.4 Other operating expenses

kEUR	2016	2015	2014
Marketing and advertising	7,347	7,258	7,102
Research and development	4,821	4,621	7,340
Contributions, fees and charges	4,654	3,798	3,897
Warehousing and freight	4,604	3,778	5,548
Rent, building, land and fixtures maintenance	4,590	3,992	3,840
Maintenance expenses	3,318	3,221	2,906
Legal, consulting and audit fees	3,246	3,464	3,041
Selling costs	2,879	2,659	2,301
Third party services	1,221	799	548
Losses from disposals	838	3,556	351
Bank charges	334	269	139
Foreign exchange losses	238	1,826	832
Expenses from write-downs	168	2,455	806
Miscellaneous	12,697	8,626	9,378
Total operating expenses	**50,955**	**50,322**	**48,029**

Selling costs include expenses for sales fairs, samples and third party sales service providers. The increase in selling costs is attributable to an increase in sales volume.

The increase in losses from disposals in the period ended 31 December 2015 mainly results from the realised loss in the course of the deconsolidation of Centuere and realised losses from the disposal of drug licenses. Expenses from write-downs include bad debt losses.

5.5 Financial result

kEUR	2016	2015	2014
Income from fair value measurement	3,659	5,128	913
Interest and other income	3,332	3,799	2,310
Foreign Exchange Gains	236	110	51
Income from divestiture	15	285	-
Miscellaneous	55	43	51
Financial income	**7,297**	**9,365**	**3,325**
Interest and other expenses	(9,316)	(11,067)	(10,389)
Expenses from fair value measurement	(3,211)	(4,654)	(1,077)
Foreign Exchange Losses	(114)	(40)	(274)
Finance leases	(14)	(22)	(32)
Impairment of financial assets	(5)	(4)	(151)
Miscellaneous	(29)	(27)	(33)
Financial expenses	**(12,689)**	**(15,814)**	**(11,956)**
Financial result	**(5,392)**	**(6,449)**	**(8,631)**

The increase in expenses from fair value measurement in financial year 2015 compared to financial year 2014 results from the increased negative fair value of the currency-related swap entered into by Dermapharm in 2010 as a result of the euro’s depreciation against the Swiss franc.

Since Dermapharm has a claim against Themis Beteiligungs AG to compensate for all expenses resulting from the currency-related swap, the income from fair value measurement increases in the same amount.

6. Financial risk management and financial instruments

6.1 Financial risk factors

Dermapharm Group's management sees on-going risks to future development due to the difficult, government-regulated competitive environment, volatile raw material prices and stagnating price levels resulting from the government-initiated price freeze.

However, given its financial stability, the Group is well prepared to overcome future risks. At present, no risks that could jeopardise the Company's ability to operate as a going concern have been identified.

Financial risk factors

Due to its business activities, the Group is exposed to various financial risks (market risk resulting from currency, interest, credit and liquidity risks).

The Group's risk management is focused on the unpredictability of financial markets and aims to minimise potentially negative effects on the financial position of the Group.

The central finance department carries out risk management in accordance with the Management's guidelines. The risk management system covers all subsidiaries. The Group's finance department identifies and assesses financial risks in close co-operation with the Group's operating units. Management provides 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.

The significant financial liabilities incorporate interest-bearing financial liabilities, trade accounts payable and other liabilities. The primary purpose of these financial liabilities is to finance the Group's business activities and to ensure that these activities are retained. The Group has access to trade accounts receivable and other receivables, as well as cash and cash equivalents, which result directly from its business activities.

The Group uses derivative financial instruments to hedge certain risks.

The following statements discuss the Group's exposure to identified risks. Furthermore, the goals, strategies and processes for risk management as well as the methods used to measure the risks are indicated.

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 manage and control 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. The foreign exchange risk can be split into two types: translation risk and transaction risk.

The translation risk describes the risk from changes to the statement of financial position and statement of comprehensive income items of a subsidiary due to changes to the exchange rates when converting local individual financial statements into the Group's presentation currency. The changes caused by currency fluctuations when translating statement of financial position items were recognised in equity. The Group is currently exposed to such a risk with six subsidiaries, though this risk is minimal due to the size of these companies.

Transaction risk is the risk that the value of future foreign currency payments may change due to exchange rate fluctuations. The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to euros.

The Group does not account for any fixed-rate financial assets or liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest swap rates) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Sensitivity analysis:

kEUR		**31 December 2016**
Assumed change in currency	EUR appreciates by 10%	EUR depreciates by 10%
Fair Value Changes		
FX FWD	(174)	123
Total Changes in Fair Value	**(174)**	**123**
Profit- and Loss Effects		
Profit (+) / Loss (-)	**(163)**	**134**

kEUR		**31 December 2015**
Assumed change in currency	EUR appreciates by 10%	EUR depreciates by 10%
Fair Value Changes		
FX FWD	252	(322)
Total Changes in Fair Value	**252**	**(322)**
Profit- and Loss Effects		
Profit (+) / Loss (-)	**316**	**(259)**

kEUR		**31 December 2014**
Assumed change in currency	EUR appreciates by 10%	EUR depreciates by 10%
Fair Value Changes		
FX FWD	433	(597)
Total Changes in Fair Value	**433**	**(597)**
Profit- and Loss Effects		
Profit (+) / Loss (-)	**566**	**(464)**

kEUR		**1 January 2014**
Assumed change in currency	EUR appreciates by 10%	EUR depreciates by 10%
Fair Value Changes		
FX FWD	1,412	(881)
Total Changes in Fair Value	**1,412**	**(881)**
Profit- and Loss Effects		
Profit (+) / Loss (-)	**1,262**	**(1,031)**

To reflect market risks, IFRS 7 requires sensitivity analyses that demonstrate the effects of hypothetical changes of relevant risk variables on the profit for the period as well as equity. The following observation is one-dimensional and does not take into account the effect of taxes. The table shows the positive and negative effects had the euro depreciated or appreciated by 5% (CHF, PLN) in comparison to the displayed currencies, provided all other variables had remained constant. Here, currency gains and losses from foreign currency denominated financial assets and financial liabilities equally impact the Group's profit and equity. Apart from the Group's profit, there exist no other effects on equity resulting from changes in exchange rates.

A reasonable potential strengthening (weakening) of the euro against material currencies used by Group companies 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, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

31 December 2016	**Balance in foreign currency**	**Balance in kEUR**	**+5% Impact on profit or loss**	**-5% Impact on profit or loss**
CHF	15,803	15,490	(713)	789
PLN	(1,323)	(316)	(20)	22

31 December 2015	**Balance in foreign currency**	**Balance in kEUR**	**+5% Impact on profit or loss**	**-5% Impact on profit or loss**
CHF	13,587	13,200	(598)	661
PLN	(1,886)	(466)	(27)	29

31 December 2014	**Balance in foreign currency**	**Balance in kEUR**	**+5% Impact on profit or loss**	**-5% Impact on profit or loss**
CHF	14,985	13,118	(603)	667
PLN	(1,607)	(396)	(19)	22

1 January 2014	**Balance in foreign currency**	**Balance in kEUR**	**+5% Impact on profit or loss**	**-5% Impact on profit or loss**
CHF	-	-	-	-
PLN	(1,727)	(438)	(20)	22

The Group’s risk from exchange rate fluctuations for all other currencies not presented here was immaterial.

Interest rate risk

The interest rate risk includes the effect of positive and negative changes to interest rates on profit, equity, or cash flows in the current or a future reporting period. Interest rate risks from financial instruments can arise within the Group mainly in connection with financial liabilities.

The following table depicts the change in income or expenses from interest rate swaps, which would result from a decrease or increase of the EURIBOR by 50 basis points:

kEUR	**31 December 2016**	**31 December 2015**	**31 December 2014**	**1 January 2014**
Assumed change in interest rates				
-50 Basis Points	(390)	(888)	(1,448)	(1,682)
Current Swap expense	(340)	(735)	(1,167)	(1,249)
+ 50 Basis Points	(289)	(580)	(893)	(848)

The following table shows the change in interest expenses for variable rate loans, which would result from a decrease or increase of the EURIBOR by 50 basis points:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Assumed change in interest rates				
-50 Basis Points	327	484	634	725
Current interest expense	477	691	864	946
+ 50 Basis Points	635	899	1,094	1,166

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 Group level, except for credit risk relating to accounts receivable balances. 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 this credit risk for the Group corresponds to the sum of trade receivables, other financial assets and cash or cash equivalents. The maximum credit risk in case of a counterparty defaulting corresponds for all classes of financial assets to the book value on the balance sheet date in each case. No significant concentration risks for the Group exist at the balance sheet date or prior periods.

Risks of default arise mainly from trade receivables from customers. Credit risks from financial transactions are managed centrally in the Finance department. To minimise risks, financial transactions are only conducted within short defined terms of payments and with banks and other partners that preferably have investment-grade ratings. In the past, no major impairments of trade receivables were necessary.

In addition, there exists a risk of default for cash and cash equivalents to the effect that financial institutions can no longer fulfil their obligations. This risk of default is limited by investing only with various banking institutions with good ratings.

c) Liquidity risk

Liquidity risk includes the risk that the Group is not in the position to settle its assumed financial liabilities upon maturity. This is why a significant aim of the liquidity management is to ensure that payment is possible at all times. Management constantly monitors the risk of liquidity shortfalls by using the liquidity planning capabilities of its ERP system. This takes account of payments in 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.

The Group had access to the following lines of credit:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Aggregate line of credit	75,501	76,517	72,751	47,723
Available line of credit	70,634	64,082	67,589	14,199
Number of banks	16	17	17	17

The following table shows the Group's financial liabilities according to class of maturity, based on the remaining maturity at the balance sheet dates in each case and related 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 at the balance sheet date in each case.

kEUR	**Due within one year**	**Due between 1 and 5 years**	**Due after 5 years**
1 January 2014			
Expected Cashflows from Financial Liabilities			
Interest	5,716	11,142	338
Repayment	52,649	86,014	10,126
Expected Cashflows from Trade Payables	25,378	-	-
Expected Cashflows from Other Financial Liabilities	77,555	-	-
31 December 2014			
Expected Cashflows from Financial Liabilities			
Interest	5,311	12,687	1,264
Repayment	22,051	131,444	30,095
Expected Cashflows from Trade Payables	27,449	-	-
Expected Cashflows from Other Financial Liabilities	30,448	-	-
31 December 2015			
Expected Cashflows from Financial Liabilities			
Interest	5,077	8,732	598
Repayment	24,034	121,612	30,084
Expected Cashflows from Trade Payables	18,139	-	-
Expected Cashflows from Other Financial Liabilities	2,322	-	-
31 December 2016			
Expected Cashflows from Financial Liabilities			
Interest	8,088	5,409	-
Repayment	65,139	96,075	32
Expected Cashflows from Trade Payables	24,526	-	-
Expected Cashflows from Other Financial Liabilities	4,285	-	-

Proceeds and payments from derivatives were expected as follows:

kEUR **1 January 2014** **Expected Cashflows from Derivatives**	**Due within one year**	**Due between 1 and 5 years**	**Due after 5 years**
Derivative contracts - receipts	1,469	6,551	2,216
Derivative contracts - payments	(1,964)	(7,186)	(2,216)

31 December 2014 **Expected Cashflows from Derivatives**			
Derivative contracts - receipts	1,643	6,670	754
Derivative contracts - payments	(2,287)	(7,310)	(754)

31 December 2015 **Expected Cashflows from Derivatives**			
Derivative contracts - receipts	3,207	10,407	-
Derivative contracts - payments	(3,699)	(10,719)	-

31 December 2016 **Expected Cashflows from Derivatives**			
Derivative contracts - receipts	3,338	6,949	-
Derivative contracts - payments	(3,667)	(6,971)	-

6.2 Risk management, derivative financial instruments and disclosures on capital management

The Group's capital management objectives are primarily to maintain and ensure an optimum capital structure to continue financing the growth plan and to manage the company's value over the long term. Here, particular focus is placed on the reduction of capital costs, the generation of liquid funds and the active management of the net working assets.

The Group manages its capital structure on the basis of various figures, such as the equity ratio, and makes adjustments where appropriate, taking into account changes to the general state of the economy.

kEUR	**31 December 2016**	**31 December 2015**	**31 December 2014**	**1 January 2014**
Equity	60,806	44,442	34,010	41,361
Total Equity and Liabilities	311,699	296,666	330,597	349,977
Equity ratio in %	**19.5%**	**15.0%**	**10.3%**	**11.8%**

6.3 Additional disclosures on financial instruments

The following table shows the carrying amounts of all financial instruments recorded in the consolidated statements 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 IAS 39.

Moreover, the table depicts the fair values of the financial instruments and the fair value hierarchy level applied to obtain the value.

31 December 2016			**Measurement acc. to IAS 39**				
kEUR	**Category acc. to IAS 39**	**Book value 31 December 2016**	**At cost**	**Fair value (through p&l)**	**Measurement acc. to IAS 17**	**Fair value 31 December 2016**	**Fair value level**
Assets							
Other non-current financial assets	LaR / HfT	10,648	523	10,125	-	10,648	2

Investments	AfS	262	262	-	-	262	
Trade receivables	LaR	26,302	26,302	-	-	26,302	
Other current financial assets	LaR / HfT	39,976	39,969	7	-	39,976	2
Cash and cash equivalents	LaR	3,816	3,816	-	-	3,816	
Liabilities							
Financial liabilities - non-current							
of which bank loans	FLAC	2,713	2,713	-	-	1,586	2
of which promissory note loans	FLAC	87,680	87,680	-	-	91,450	2
of which participation rights	FLAC	6,360	6,360	-	-	6,415	2
of which leasing liabilities	n.a.	143	-	-	143	143	
Other non-current financial liabilities	HfT	10,464	-	10,464	-	10,464	2
Financial liabilities - current							
of which bank loans	FLAC	14,660	14,660	-	-	13,693	2
of which promissory note loans	FLAC	40,413	40,413	-	-	42,532	2
of which participation rights	FLAC	5,831	5,831	-	-	5,344	2
of which bank overdrafts	FLAC	4,867	4,867	-	-	4,867	
of which leasing liabilities	n.a.	112	-	-	112	112	
Trade payables	FLAC	24,526	24,526	-	-	24,526	
Other current financial liabilities	FLAC / HfT	4,303	4,285	18	-	4,303	2

Totals per category acc. to IAS 39							
Available for sale (AfS)	AfS	262	262	-	-	262	
Financial Asset Held for Trading (HfT)	HfT	10,132	-	10,132	-	10,132	
Loans and receivables (LaR)	LaR	70,610	70,610	-	-	70,610	
Financial Liabilities Held for Trading (HfT)	HfT	10,482	-	10,482	-	10,482	
Financial liabilities measured at amortised cost (FLAC)	FLAC	191,335	191,335	-	-	194,698	

31 December 2015				**Measurement acc. to IAS 39**			
kEUR	**Category acc. to IAS 39**	**Book value 31 December 2015**	**At cost**	**Fair value (through p&l)**	**Measurement acc. to IAS 17**	**Fair value 31 December 2015**	**Fair value level**
Assets							
Other non-current financial assets	LaR / HfT	13,841	527	13,314	-	13,841	2
Investments	AfS	218	218	-	-	218	
Trade receivables	LaR	17,423	17,423	-	-	17,423	
Other current financial assets	LaR / HfT	42,499	42,495	4	-	42,499	2
Cash and cash equivalents	LaR	2,791	2,791	-	-	2,791	
Liabilities							
Financial liabilities - non-current							
of which bank loans	FLAC	12,466	12,466	-	-	10,200	2
of which promissory note loans	FLAC	127,514	127,514	-	-	132,181	2
of which participation rights	FLAC	10,956	10,956	-	-	11,748	2
of which leasing liabilities	n.a.	137	-	-	137	137	
Other non-current financial liabilities	HfT	14,050	-	14,050	-	14,050	2
Financial liabilities - current							
of which bank loans	FLAC	9,997	9,997	-	-	12,270	2
of which promissory note loans	FLAC	916	916	-	-	3,289	2

of which participation rights	FLAC	1,323	1,323	-	-	1,325	2
of which bank overdrafts	FLAC	12,435	12,435	-	-	12,435	
of which leasing liabilities	n.a.	235	-	-	235	235	
Trade payables	FLAC	18,139	18,139	-	-	18,139	
Other current financial liabilities	FLAC / HfT	2,389	2,322	67	-	2,389	2
Totals per category acc. to IAS 39							
Available for sale (AfS)	AfS	218	218	-	-	218	
Financial Asset Held for Trading (HfT)	HfT	13,318	-	13,318	-	13,318	
Financial Liabilities Held for Trading (HfT)	HfT	-	-	14,117	-	14,117	
Loans and receivables (LaR)	LaR	63,236	63,236	-	-	63,236	
Financial liabilities measured at amortised cost (FLAC)	FLAC	196,068	196,068	-	-	203,909	

31 December 2014				**Measurement acc. to IAS 39**			
kEUR	**Category acc. to IAS 39**	**Book value 31 December 2014**	**At cost**	**Fair value (through p&l)**	**Measurement acc. to IAS 17**	**Fair value 31 December 2014**	**Fair value level**
Assets							
Other non-current financial assets	LaR / HfT	9,205	426	8,779	-	9,205	2
Investments	AfS	461	461	-	-	461	
Trade receivables	LaR	22,791	22,791	-	-	22,791	
Other current financial assets	LaR / HfT	58,810	58,803	7	-	58,810	2
Cash and cash equivalents	LaR	11,645	11,645	-	-	11,645	
Liabilities							
Financial liabilities - non-current							
of which bank loans	FLAC	22,228	22,228	-	-	18,822	2
of which promissory note loans	FLAC	127,984	127,984	-	-	133,958	2
of which participation rights	FLAC	10,981	10,981	-	-	13,034	2
of which leasing liabilities	n.a.	337	-	-	337	337	
Other non-current financial liabilities	HfT	9,946	-	9,946	-	9,946	2
Financial liabilities - current							
of which bank loans	FLAC	13,113	13,113	-	-	17,076	2
of which promissory note loans	FLAC	600	600	-	-	3,377	2
of which participation rights	FLAC	1,318	1,318	-	-	1,321	2
of which bank overdrafts	FLAC	5,162	5,162	-	-	5,162	
of which leasing liabilities	n.a.	189	-	-	189	189	
Trade payables	FLAC	27,449	27,449	-	-	27,449	
Other current financial liabilities	FLAC / HfT	30,605	30,448	157	-	30,605	2
Totals per category acc. to IAS 39							
Available for sale (AfS)	AfS	461	461	-	-	461	
Financial Asset Held for Trading (HfT)	HfT	8,786	-	8,786	-	8,786	
Financial Liabilities Held for Trading (HfT)	HfT	-	-	10,103	-	10,103	
Loans and receivables (LaR)	LaR	93,665	93,665	-	-	93,665	
Financial liabilities measured at amortised cost (FLAC)	FLAC	239,283	239,283	-	-	250,647	

1 January 2014		Measurement acc. to IAS 39					
kEUR	**Category acc. to IAS 39**	**Book value 1 January 2014**	**At cost**	**Fair value (through p&l)**	**Measurement acc. to IAS 17**	**Fair value 1 January 2014**	**Fair value level**
Assets							
Other non-current financial assets	LaR / HfT	9,641	399	9,242	-	9,641	2
Investments	AfS	797	797	-	-	797	
Trade receivables	LaR	22,388	22,388	-	-	22,388	
Other current financial assets	LaR / HfT	83,309	83,127	182	-	83,309	2
Cash and cash equivalents	LaR	4,665	4,665	-	-	4,665	
Liabilities							
Financial liabilities - non-current							
of which bank loans	FLAC	38,531	38,531	-	-	32,923	2
of which promissory note loans	FLAC	50,995	50,995	-	-	52,043	2
of which participation rights	FLAC	10,981	10,981	-	-	-	2
of which leasing liabilities	n.a.	324	-	-	324	324	
Other non-current financial liabilities	HfT	10,491	-	10,491	-	10,491	2
Financial liabilities - current							
of which bank loans	FLAC	16,525	16,525	-	-	20,831	2
of which promissory note loans	FLAC	600	600	-	-	1,950	2
of which participation rights	FLAC	1,318	1,318	-	-	1,321	2
of which bank overdrafts	FLAC	33,524	33,524	-	-	33,524	
of which leasing liabilities	n.a.	151	-	-	151	151	
Trade payables	FLAC	25,378	25,378	-	-	25,378	
Other current financial liabilities	FLAC / HfT	77,596	77,554	42	-	77,596	2
Totals per category acc. to IAS 39							
Available for sale (AfS)	AfS	797	797	-	-	797	
Financial Asset Held for Trading (HfT)	HfT	9,424	-	9,424	-	9,424	
Financial Liabilities Held for Trading (HfT)	HfT	-	-	10,533	-	10,533	
Loans and receivables (LaR)	LaR	110,579	110,579	-	-	110,579	
Financial liabilities measured at amortised cost (FLAC)	FLAC	255,406	255,406	-	-	245,525	

All financial assets and liabilities classified as held for trading were recorded at their fair values in the financial statement.

Due to the short maturity of the cash and cash equivalents, trade receivables and payables as well as current financial liabilities, 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 investments qualify as available-for-sale financial assets under IAS 39. They thus have to be measured at fair value in the statement of financial position. However, due to the immateriality of the investments and because the fair value could not be measured reliably, they are measured at cost less impairment charges.

The following table depicts the net result from financial instruments for the periods ended 31 December 2016, 31 December 2015 and 31 December 2014.

Net result from financial instruments

kEUR	**2016**	**2015**	**2014**
Interest income on:			
Loans and Receivables	677	196	(596)
Held-for-trading Derivatives	3,180	3,542	1,509
Finance income	**3,857**	**3,738**	**913**
Interest expense on:			
Financial liabilities measured at amortised cost	(5,700)	(6,882)	(8,545)
Held-for-trading Derivatives	(3,616)	(4,185)	(1,844)
Finance expense	**(9,316)**	**(11,067)**	**(10,389)**
Write down of receivables (LaR)	(158)	(27)	(123)
Impairment of financial assets (AfS)	(5)	(4)	(151)
Net result from subsequent measurement (HfT) through P&L	448	474	(164)
Income from subsequent measurement (HfT) through P&L	3,659	5,128	913
Expenses from subsequent measurement (HfT) through P&L	(3,211)	(4,654)	(1,077)
Net foreign exchange loss	(399)	(1,533)	(398)
Foreign Exchange Gains	433	602	847
Foreign Exchange Gains from LaR	5	2	6
Foreign Exchange Gains from FLAC	428	600	842
Foreign Exchange Losses	(832)	(2,135)	(1,245)
Foreign Exchange Losses from LaR	(3)	(3)	(2)
Foreign Exchange Losses from FLAC	(496)	(705)	(1,103)
Net result from financial instruments	**(5,573)**	**(8,419)**	**(10,312)**

The increase of the Group’s net result from financial instruments in 2016 compared to financial year 2015 is attributable to foreign exchange effects and the decline in interest expenses.

The impairment of available-for-sale financial assets in 2014 relates to write downs of stakes in companies which are not included in the Group’s consolidated financial statements.

7. Other disclosures

7.1 Notes to the consolidated statement of cash flows

The consolidated statement of cash flows was prepared in accordance with IAS 7 Statement 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 use between the operating sector and the cash flows from the investment and financing activities. The cash inflows and outflows from operating activities are derived indirectly 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.

7.2 Other financial obligations and contingent liabilities

a) Obligations from finance leases

The Group has entered into various lease agreements for various vehicles and technical equipment; the structure of those lease agreements requires them to be recognised as finance leases. The agreements do not contain escalation clauses.

Future minimum lease payments under finance leases and lease-purchase contracts together with the present value of the net minimum lease payments are as follows:

	31 December 2016		31 December 2015		31 December 2014		1 January 2014	
kEUR	**Min. lease pymts.**	**PV min lease pymts.**	**Min. lease pymts.**	**PV min lease pymts.**	**Min. lease pymts.**	**PV min lease pymts.**	**Min. lease pymts.**	**PV min lease pymts.**
With a remaining term of up to one year	235	223	259	239	260	231	290	258
With a remaining term of between one and five years	157	151	290	277	412	387	500	462
With a remaining term of more than five years	5	5	13	12	-	-	-	-
Total	**397**	**379**	**562**	**528**	**672**	**618**	**790**	**720**
Less financing costs	(18)	-	(33)	-	(52)	-	(70)	-
Present value of minimum lease payments	**379**	**379**	**529**	**528**	**620**	**618**	**720**	**720**
Of which current liabilities	-	223	-	239	-	231	-	258
Of which non-current liabilities	-	156	-	289	-	387	-	462

b) Obligations from operating leases

The Group has concluded lease agreements for office and warehouse spaces, various vehicles and office equipment. These leases have an average term of between one and five years. Some of the lease agreements renew automatically if they are not terminated within a certain notice period. The Group is not subject to any limitations by the leasing agreements.

At 31 December the following future minimum leasing obligations from non-cancellable operating leases existed:

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Up to 1 year	1,695	1,781	1,677	1,721
Above 1 year and up to 5 years	2,111	2,844	2,889	2,093
Above 5 years	5,167	5,267	5,367	5,467
Total	**8,973**	**9,892**	**9,933**	**9,281**

In the financial year 2016, expenses from operating leases amounted to kEUR 2,118 (2015: kEUR 1,952; 2014: kEUR 1,988).

c) Other financial obligations

Litigation

In the course of its business activities, Dermapharm is regularly exposed to numerous legal risks, particularly in the areas of product liability, competition, intellectual property disputes and tax matters. The following legal disputes are the only material proceedings that Dermapharm is currently involved in or was involved in during the past twelve months:

- In 2009, Israel-based SuperMedic (MediLight) Ltd. and various related parties (together “SuperMedic”) asserted claims for damages and infringement of intellectual property in an aggregate amount of approximately kEUR 9,700 against Anton Hübner GmbH & Co. KG relating to the termination of a distribution agreement between the parties concerning certain products and an alleged trademark infringement concerning the “Tannenblut” trademark in Israel. At the time, Anton Hübner GmbH & Co. KG was owned by Nordzucker AG and filed a counterclaim against SuperMedic for infringement of this trademark, seeking to cancel SuperMedic’s registration as owner of the “Tannenblut” trademark in Israel before the Israeli Trademark Office. In accordance with the share purchase agreement between Dermapharm AG and Nordzucker AG dated 8 December 2010, Nordzucker AG was required to bear all financial risks arising from SuperMedic’s lawsuit. In May 2017, Anton Hübner GmbH & Co. KG and SuperMedic settled the dispute. SuperMedic agreed to pay compensation in an amount of 100,000 Israeli shekels (approximately kEUR 24) and to recognise the trademarks asserted by Anton Hübner GmbH & Co. KG, in particular the “Tannenblut” trademark.

- In addition, Dermapharm filed a lawsuit against UniCredit Bank AG (“UniCredit”) before the regional court of Munich in December 2011. Dermapharm demands the rescission of certain currency-related swap transactions entered into with UniCredit between 2006 and 2010, as well as payments in an aggregate amount of approximately kEUR 20,093. Dermapharm 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 lawsuit generally only provides upside to Dermapharm. The lawsuit was dismissed in the first two instances. Dermapharm has filed an appeal against denial of leave to appeal with the German Federal Supreme Court and expects that a decision will be made shortly. Although the company has lost in the first two instances, there a several precedents which gave justice to the claimants. Dermapharm did not recognise a provision for this legal claim, since the parent company of the Dermapharm AG, Themis Beteiligungs AG, will cover all losses and all legal costs. An agreement to this effect was signed on 20 December 2013.

In addition to the above-mentioned legal disputes, the Group is involved in other legal proceedings; however, none of these are material to the Group’s financial position and are within the scope of normal business.

Apart from the proceedings described above, Dermapharm is not aware of any governmental, legal or arbitration proceedings (whether pending or threatened) which may have, or have had, a significant effect on Dermapharm's financial position or profitability.

Guarantees

There were no material guarantees as at 31 December 2016 or as at the 31 December 2015, 31 December 2014 or 1 January 2014 balance sheet dates.

Contingent liabilities

There were no material contingent liabilities as at 31 December 2016 or as at the 31 December 2015, 31 December 2014 or 1 January 2014 balance sheet dates.

Purchase commitments

At 31 December 2016, the Group has purchase commitments relating to inventories of kEUR 72,985 (31 December 2015: kEUR 88,969; 31 December 2014: kEUR 65,401; 1 January 2014: kEUR 65,174).

7.3 Collateral

At 31 December 2016, intangible assets (mainly medical licences) with a carrying amount of kEUR 2,242 (31 December 2015: kEUR 2,462; 31 December 2014: kEUR 2,363; 1 January 2014: kEUR 2,575) were pledged to different banks in order to provide collateral for bank loans.

In 2013, Dermapharm, as seller, entered into two sale purchase agreements relating to all of its shares in Profarma sha and Galaxy shpk. The parties agreed that shares reflecting 51% of the share capital of Profarma and Galaxy shall be retained by Dermapharm until the purchase price is fully paid to Dermapharm. The outstanding purchase price was paid in 2016.

The Group did not hold any further collateral as at 31 December 2016 or as at the 31 December 2015 and 31 December 2014 balance sheet dates.

8. Related party disclosures

Related parties as defined in IAS 24 Related Party Disclosures are those legal entities and natural persons that are able to exert influence on Dermapharm and its subsidiaries or over which the company or its subsidiaries exercise control or joint control or have a significant influence. In the scope of the ordinary course of business, Dermapharm and its subsidiaries or over which the company or its subsidiaries exercise control or joint control or have a significant influence have entered into related party transactions. In principle, all trades are settled with related companies and natural persons at market-rate conditions and all outstanding balances with related parties are priced on an arm's length basis. Key Management Personnel includes members of the Management Board and the Supervisory Board. Significant Shareholders are those who own or are the beneficial owners of more than ten percent of the Dermapharm's voting shares.

Transactions with related parties for the financial years ended 31 December 2014, 2015 and 2016 between the Group and Significant Shareholders and other related parties are summarised below.

a) Significant transactions

Significant related shareholder transactions:

kEUR	2016	2015	2014
Consultancy services	1,314	1,216	1,337
Compensation from Dermapharm CH	113	116	102
Total	**1,427**	**1,332**	**1,439**

The consultancy services consist of marketing and advertising costs and related activities rendered by significant shareholders.

Compensation from Dermapharm CH results from salary payments to Wilhelm Beier.

Significant related party transactions

kEUR	2016	2015	2014
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	24,423	25,853	11,191
Non-consolidated subsidiaries	-	597	-
Associated companies	926	963	1,990
Profit and loss transfer agreement	25,350	27,414	13,182
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	15,270	1,561	572
Financial instruments	15,270	1,561	572
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	3,848	-	4,242
Indirect taxes from tax group	3,848	-	4,242
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	1,611	-	1,229
Non-consolidated subsidiaries	103	229	654
Interest	1,714	229	1,883
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	591	420	210
Non-consolidated subsidiaries	577	558	840
Consultancy services	1,168	978	1,050
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	944	-	554
Non-consolidated subsidiaries	68	48	213
Other services	1,012	49	767
Non-consolidated subsidiaries	-	-	1,179
Associated companies	214	17	-
Purchase of goods	214	17	1,179
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	2,223	23,878
Non-consolidated subsidiaries	-	4,971	35,971
Associated companies	145	91	-
Loans	145	7,285	59,848
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	7,152	-
Non-consolidated subsidiaries	-	-	8,932
Sale of companies	-	7,152	8,932
Total	**48,720**	**44,685**	**91,655**

Related party transactions arise primarily from the profit and loss transfer agreement with Themis Beteiligungs AG.

Related party transactions from financial instruments result from the currency-related swap with the UniCredit Bank AG. For further information please refer to 7.2c) Litigations.

Loans in 2014 mainly comprise loans from Themis Beteiligungs AG, Grünwald, and SLG Service Logistik, Leuna, to Channel 21, Grünwald.

For further information on the sale of companies please refer to section 2.4. Basis of consolidation.

b) Year-end balances of significant related parties

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	-	-	73,393
Payables from profit and loss transfer agreement	-	-	-	73,393
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	3,848	-	3,821	3,627
Payables from Indirect taxes from tax group	3,848	-	3,821	3,627
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	420	420	210	420
Payables from consultancy services	420	420	210	420
Non-consolidated subsidiaries	-	-	31	-
Payables from other services	-	-	31	-
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	10	50	24,386	115
Payables from loans	10	50	24,386	115
Total	**4,278**	**470**	**28,448**	**77,555**

kEUR	31 December 2016	31 December 2015	31 December 2014	1 January 2014
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	24,423	25,853	11,191	-
Non-consolidated subsidiaries	-	597	-	-
Receivables from profit and loss transfer agreement	24,423	26,451	11,191	-
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	15,270	1,561	572	-
Receivables from financial instruments	15,270	1,561	572	-
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	-	976	495
Receivables from Indirect taxes from tax group	-	-	976	495
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	-	-	-
Non-consolidated subsidiaries	20	1	59	622
Receivables from other services	20	1	59	622
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	-	-	-
Non-consolidated subsidiaries	-	-	179	-
Receivables from purchase of goods	-	-	179	-
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	2,223	-	-
Non-consolidated subsidiaries	6	5,013	36,729	56,881
Associated companies	90	-	-	-
Receivables from loans	96	7,236	36,729	56,881
Parent company (Themis Beteiligungsgesellschaft AG) of Dermapharm AG	-	7,152	-	-
Non-consolidated subsidiaries	-	-	8,932	24,590
Receivables from sale of companies	-	7,152	8,932	24,590
Total	**39,809**	**42,400**	**58,638**	**82,589**

Receivables from the sale of companies amounting to kEUR 6,534 were past due and not impaired. The receivables result from the sale of shares between Centuere AG and Channel 21 Holding. All other receivables from related parties are fully performing. For further information on the sale of companies please refer to section 2.4. Basis of consolidation.

c) Key Management personnel compensation

The members of the Key Management were remunerated as follows:

kEUR	2016	2015	2014
Short-term employee benefits	2,177	1,720	1,510
Long-term employee benefits	43	44	44
Total remuneration	**2,220**	**1,764**	**1,554**

The members of Key Management are only compensated due to their function as a person in a key position.

9. Disclosures on the Management Board and the Supervisory Board

The Company's corporate boards are composed as follows:

Members of the Management Board of Dermapharm AG:

Name	Position
Wilhelm Beier	Chief Executive Officer
Dr. Hans-Georg Feldmeier	Chief Operating Officer
Stefan Grieving	Head of Marketing & Sales
Karin Samusch	Head of Business Development

Members of the Supervisory Board of Dermapharm AG:

Name	Position
Elisabeth Beier	Chairman of the Supervisory Board
Dr. Erwin Kern	Member of the Supervisory Board
Michael Beier	Member of the Supervisory Board
Eckhard Strohscheer	Member of the Supervisory Board

In the financial years presented, there were no pension obligations due to members of Key Management or former members of Key Management. However, the Supervisory Board members are covered by a Group D&O insurance policy.

10. Events after the reporting period

Events after the reporting date with a significant or possibly significant impact on the net assets, financial positions and results of operations of the Group:

- On 1 January 2017, the Group acquired the remaining 15% stake in axicorp GmbH, Friedrichsdorf, Germany, from DU Vermögensverwaltungs GmbH, Weiden, Germany. The acquisition increases the stake in axicorp GmbH from 85% to 100%.
- The Group company axicorp GmbH acquired the remaining 24.9% stake in Remedix GmbH, Friedrichsdorf, Germany, from a private stakeholder on 1 March 2017. The Group now owns all of the shares in Remedix GmbH.
- On 5 July 2017, mibe Logistik & Services GmbH & Co. KG, headquartered in Sandersdorf-Brehna, Germany, was founded. The object of the company is the operation of logistic services and other various services. mibe Logisitik & Services GmbH & Co. KG is a wholly owned subsidiary of mibe GmbH.
- With effect from 1 September 2017, Stefan Hümer took over as Chief Financial Officer of the Group.
- With effect from 18 August 2017, Cancernova GmbH onkologische Arzneimittel was merged with Mibe GmbH Arzneimittel.
- On 20 September 2017 (Closing Date), the group acquired the assets pertaining to the hyperthermic medical devises division of Riemser Pharma GmbH, Greifswald-Insel Riems. The acquired division has a highly innovative medical applications portfolio selectively targeting mosquito and insect stitches (bite away), herpes blisters (Herpotherm) as well as a development project focusing on dermatitis and its accompanying symptoms. The acquisition provides further growth potential for the Group. The acquired assets include the business intellectual property rights, the technical know-how of the division, the commercial know-how, the purchased regulatory approvals, as well as the inventories. Moreover, the employment relationships of some employees of the division were transferred to Dermapharm at the closing date. At the time these financial

statements were approved for publication, the assessment of the applicable accounting requirements is ongoing.

- On 21 September 2017, the Group acquired all of the shares and voting interests in Bio-Diät-Berlin GmbH, Berlin, along with its wholly owned distribution subsidiary Kräuter Kühne GmbH, Berlin, from the former shareholder. The transaction closed on 1 October 2017.
- The acquired companies are successfully producing and marketing phytopharmaceuticals (herbal medicines) as well as homoeopathics and natural cosmetics. Kräuter Kühne GmbH, Berlin, operates 16 sales outlets, an online shop and related services. With the acquisition, the Group intends to extend its product pipeline. The purchase price amounts to kEUR 14,500.
- Due to the timing of the transaction, it was not yet possible to provide any information about the fair value of the acquired assets and liabilities because the purchase price allocation is not yet finalised.
- On December 12, 2017, Dermapharm entered into a sale and purchase agreement for the acquisition of all shares in Trommsdorff GmbH & Co. KG and Cl. Lageman Gesellschaft mit beschränkter Haftung (together, “Trommsdorff”). Trommsdorff markets 23 different prescription pharmaceuticals and OTC products, in particular Keltican® forte, a dietary product for the treatment of back pain, and Tromcardin® complex, which combines certain minerals and vitamins for the treatment of cardiac arrhythmia. Trommsdorff also serves its former parent group as a toll manufacturer. The acquisition of Trommsdorff is subject to approval by the German Federal Cartel Office (*Bundeskartellamt*) and is expected to close in the first quarter of the fiscal year ending December 31, 2018. The parties agreed to keep the purchase price confidential. Due to the timing of the Transaction, it was not yet possible to provide any information about the fair value of the transaction.
- On December 20, 2017, Dermapharm acquired all shares in Strathmann GmbH & Co. KG, Strathmann Service GmbH and Biokirch GmbH Pharmaproduktion und Ärzteservice (together, “Strathmann”). Strathmann manufactures a broad product offering primarily comprising OTC products, which complement Dermapharm’s existing product portfolio, in particular with respect to the dermatologicals, women’s healthcare and vitamins/minerals/enzymes product areas. The parties agreed to keep the purchase price confidential. Due to the timing of the Transaction, it was not yet possible to provide any information about the fair value of the transaction.
- In order to finance the acquisition of ”Trommsdorff”, Dermapharm entered in a new bank loan agreement with Baden-Württembergische Bank. The payment of the loan will made after the approval by the German Federal Cartel Office (*Bundeskartellamt*)

Grünwald, 29 December 2017, the Management Board

Stefan Hümer Chief Financial Officer	Karin Samusch Head of Business Development

Dermapharm AG

CONSOLIDATED MANAGEMENT REPORT 2016

I. Group Fundamentals

1. The Group's Business Model

Dermapharm AG, Grünwald is a 100% subsidiary of Themis Beteiligungs-Aktiengesellschaft.

Dermapharm AG, Grünwald and the domestic and international subsidiaries listed in subsection II.3 concentrate on the development, registration, manufacture and sale of products using off-patent pharmaceutical active ingredients in the health-care and in particular the pharmaceutical industry.

The Group companies' core products are:

- Generics (off-patent, follow-up products containing the same active ingredients as a medication already on the market under a given brand name. They are distributed under an international non-proprietary name,
- Branded generics (distributed under an own brand name),
- Non-prescription natural remedies,
- Other OTCs (drugs available only at pharmacies but not requiring a prescription) and
- Parallel-imported original preparations.

Our product portfolio thus covers a very broad spectrum of drug classes for almost all indications.

To this end the Group operates production and distribution facilities in Germany, which is also our largest sales market, Austria, Switzerland, the Netherlands, Poland, Croatia and Ukraine.

The great majority of our preparations are manufactured in our central production and logistics facility, mibe GmbH Arzneimittel in Brehna. mibe is also responsible for the central purchasing of active ingredients and supplying our subsidiaries.

In Austria and Poland we also produce individual products for sale on the local markets.

In Germany, responsibility for promoting and selling all generics and OTC finished products is in the hands of a joint sales force which maintains contact with pharmacists, general practitioners, clinics and hospitals. Parallel-imported original medicines are also distributed via a direct telephone sales operation.

Thanks to our Group companies we possess all the factors necessary to ensure our long-term success. These include flexible corporate structures, a secure, broad customer base, a global orientation coupled with regional flexibility as well as an entrepreneurially-minded management structure.

2. Research and Development

In line with our business model, Dermapharm AG Group companies do not conduct any fundamental pharmaceutical research. Instead, our focus is on the development of preparations using pharmaceutical ingredients which as a rule are no longer patent-protected.

The foundation for profitable growth and long-term corporate success is the continuous market launch of generic products at the earliest possible date after patents expire, at the most favourable possible manufacturing cost. The Group's own development centre, mibe Arzneimittel GmbH in Brehna, plays a key role in this process, backed up by contract development work and our collaboration with external development partners.

For this purpose, we collaborate with external partners in the context of the implementation of clinical studies. The design (e.g., setting criteria for patient selection, determining the relevant dosage regime and analysing data obtained in clinical studies) and the sponsoring of the clinical studies are managed in-house.

Wherever possible, companies of the Dermapharm AG Group exploit newly-developed products for international marketing. Therefore the companies make use of both domestic and supranational, mostly EU-wide, registration procedures.

From the 2014 financial year onwards, expenditure on own development projects (internally generated assets) have been capitalized rather than recognized as expense.

The 2016 research and development costs amounted to kEUR 8,319 (2015: kEUR 8,081, 2014: kEUR 7,345). This represents an increase of kEUR 238 (2015: kEUR 736). Due to their business model the companies are not active in the field of research into new pharmaceutical ingredients. Therefore these costs are exclusively development costs.

Development costs for new products totalling kEUR 8,319 (2015: kEUR 8,081, 2014: kEUR 7,345) were capitalized. In 2016 the amortization of capitalized development costs totalled kEUR 24 (2015: kEUR 2, 2014: kEUR -). 62 men and women were employed in product development in 2016 (2015: 57 employees, 2014: 49 employees).

II. Business performance

1. Economic conditions generally and in the industry

General economic conditions

2016 was characterized by enduringly low interest rates in the Eurozone. The continuation of the cheap money policy, through such measures as extensive bond purchase programs by the European Central Bank (ECB) to stimulate the economy and increase the inflation rate led to rising equity prices. In contrast, the US central bank, the Federal Reserve (Fed), twice raised its Federal Fund Rate during 2016. Moreover, concerns about the outcome of the US presidential election, the future performance of the Chinese economy and the British referendum on leaving the EU all made for greater volatility. A further factor influencing economic performance and the financial markets was OPEC's decision to cut back crude oil production, which led to an immediate rise in oil prices on the world markets.

According to the International Monetary Fund (IMF)[1)], the global economy grew by 3.1% in 2016. Growth on the world's largest economy, the USA, came in at a modest 1.6%, while China's economy grew 6.7%, the lowest rate since 1990. Growth in the Eurozone gathered pace and amounted to 1.7%, while Germany registered a rate of 1.9%.

Economic conditions in the pharmaceutical industry

The pharmaceutical and health markets drew general benefit from demographic transition in the form of an ageing population and worldwide population growth, as well as from medical improvements. According to IMS Health[2)], overall turnover in the international generics market increased by 7.8% in 2016, to approx. bEUR 185.3, and generics' market share of the global pharmaceutical market was approx. 15.2%.

Also according to IMS Health, our most important generics market, Germany, grew by 4.0% to approx. bEUR 6.7. However, these volume gains were regularly wiped out by government regulations of pricing structures. Thus the industry continues to be affected by steadily declining prices, government-enforced rebates plus large rebates granted to statutory health insurances in line with mandatory rebate contracts between manufacturers and statutory health insurances.

Both the generics market and the OTC market saw a high degree of consolidation in the course of 2016, largely as a result of acquisitions or investments. In addition to this, some companies exchanged or merged their business units in order to focus on their core competence or reinforce the respective divisions.

A further driver of these trends is the steady expiry of the patents from which the sector derives its growth. In addition, the increasing penetration of generics has not yet been exhausted, and can indeed be expected to increase further against a backdrop of cuts enforced by the Eurozone government debt crisis.

Given that the business model of companies within the Dermapharm AG Group is geared to the health market, in which demand is largely unaffected by the economic cycle, the world economy as a rule has less direct impact on the Group's business performance than the regulatory frameworks in place within the individual market regions.

Influence of the Pharmaceuticals Market Reorganization Act (*Arzneimittelmarktneuordnungsgesetzes - AMNOG*) in Germany

Reference prices for medicines

The reference prices are the maximum amounts refundable by statutory health insurances on the cost of medicines. These amounts are fixed for groups of comparable medicines. If a doctor nevertheless prescribes a drug which costs more than that reference price the patient will have to pay for the difference, in addition to the statutory co- payment.

Groups of comparable medicines may be formed according to varying criteria, in view of which a distinction between three levels of comparability can be made: Level One reference price groups comprise medicines with the same active ingredients. Level Two reference price groups comprise medicines whose active ingredients are pharmacologically and in particular chemically, comparable, and are therefore also comparable in terms of their therapeutic effect. Level Three reference price groups comprise medicines which are not comparable in terms of their active ingredients but are comparable in terms of their therapeutic effect.

Furthermore, statutory health insurances can negotiate special rebate contracts with manufacturers so that medicines costing more than the fixed amount are available to their insurants at no extra cost.

Manufacturer rebate:

Essentially German pharmaceutical companies are free to decide what prices they charge for medicines. However, since 2006 pharmaceutical companies have been required to grant statutory health insurances (SHI) a ten per cent manufacturer rebate on off-patent medicines with the same active ingredients, i.e., generics. This rebate only applies to statutory health insurance and relates to the manufacturer's ex-factory price excluding value added tax.

Manufacturers may offset price reductions against the rebate provided the reduced price remains stable for at least three years. If a price falls by ten per cent or more the rebate ceases to apply. This offsetting option applies to price cuts made from 1 January 2007 onwards. A price moratorium has also been in force since that date, whereby manufacturers who do increase their prices must pay the statutory health insurances an additional rebate equal to the price increase.

Moreover, the first Act passed by the new coalition government in December 2013 was the 13th SGB V Amendment Act (*SGB = Sozialgesetzbuch*, the German Social Code), which retained the price moratorium (contrary to the policy originally envisaged). Accordingly 2009 prices continue to apply. When the 14th SGB V Amendment Act came into force, the price moratorium was retained until the end of 2017, along with an increase in the mandatory rebate from 6% to 7%.

On March 9, 2017 the Act on Strengthening Pharmaceutical Supply in Statutory Health Insurance (*GKV-Arzneimittelversorgungsstärkungsgesetz*) was passed, with the coalition voting in favour of it. This further extends the price moratorium until 2022, though allowing inflation-matching increases from 2018 onwards.

<u>Co- payments</u>

For prescription drugs recipients must make co- payments. The co- payment per medicine is generally ten per cent, with a minimum of five euros and a maximum of ten euros. The payment must not exceed the cost of the drug.

However, it is possible for certain medicines to be entirely exempt from the co- payment requirement. This applies if the doctor and a patient agree to use a particularly economical medicine which costs at least 30 per cent less than the reference price. It is also possible to halve the co- payment or even reduce it to zero if the prescribed medicine is subject to a rebate contract which the statutory health insurance has concluded with a drug manufacturer. If a doctor prescribes a drug costing more than that reference price, the patient will have to pay that difference in addition to the statutory co- payment.

<u>Rebate contracts with statutory and private health insurances</u>

Since 2003 the law has allowed health insurances and pharmaceutical companies the option of entering into individual rebate agreements for certain medicines.

Furthermore, for medicines costing more than the reference price, special rebate contracts can be negotiated with manufacturers whereby schemes can ensure that their insurants can continue their usual treatment at no significant extra cost.

Since 2006 pharmacists are also obliged, when a prescription is handed in, to issue precisely the drug with the same active ingredient for which the patient's statutory health insurance has concluded a rebate contract. This only ceases to apply if the doctor has ruled it out by writing "aut idem" on the prescription. The advantage of this for the patient is that the co- payment may be halved or even reduced to zero.

The Pharmaceuticals Market Reorganization Act (AMNOG) also permits cost refunds on supplied medicines in individual cases. This means that insurants are now also entitled to choose medicines other than their statutory health insurance's rebated drug or one of the three cheapest. In this case the statutory health insurance will refund the cost, but only up to the amount the statutory health insurance would have met if providing the drug. This means that insurants must meet any extra cost incurred through their choice of a different drug.

<u>International pharmaceutical markets</u>

The international markets are characterized by a wide range of different local government influences.

The Croatian pharmaceutical industry in particular remains subject to massive regulatory interventions from the government statutory health insurance HZZO, which has frozen its total budget at the 2011 level.

Furthermore, inclusion in the government reference price list is a prerequisite for being allowed to trade on the Croatian market. The HZZO, which fixes the reference prices for refundable drugs, applies a graduated procedure for the purpose which incorporates elements of the rigid Australian system. As a basis the prices charged in Italy, France and Slovenia, and in some cases also in Spain and the Czech Republic are taken, while providers of patent-protected drugs must also accept a further 10% rebate. From the beginning of 2013 to today the price base has been adjusted downwards four times, and generics providers can only secure a place on the list by offering a rebate of 35%. Somewhat higher prices are permitted for drugs new to the market, but the prices of all other generics in an active ingredient group are forced downwards.

The HZZO is attempting to push through further price cuts on listed medicines by calling on providers of drugs with the same therapeutic effects but different prices to make renewed price offers via a tendering process. Providers who are willing to offer the lowest prices are put on the so-called A List of drugs for which full refunds are given, while more expensive ones go on the B List of drugs for which patients have to make co- payments.

In the case of generics being listed for the first time there must be a rebate of at least 30% on the reference price for the original drug.

Impact of the general and industry-specific economic conditions

The business model of Dermapharm AG Group companies is geared to a health market in which demand is relatively independent of the economic cycle. In view of this, international economic conditions as a rule have less direct impact on the Group's business performance than the regulatory frameworks in place on the individual markets.

2. Business development

The 2016 financial year was marked by the continuing effects of the 2014 extension of the mandatory statutory rebate on preparations with no reference price, as well as the continuation of the price moratorium at 2009 levels in Germany, our main sales market.

Our strategy of concentrating on niche markets and offering a broad-based product portfolio which is not dependent on blockbuster drugs remained intact during the reporting period. The main growth impetus came both from preparations which were not subject to active ingredient-related rebate contracts and from ones characterized by innovative unique selling points.

As in previous years, in 2016 several of our development projects were approved by the Federal Institute for Drugs and Medical Devices (*Bundesinstitut für Arzneimittel und Medizinprodukte - BfArM*) or the corresponding international authorities and successfully brought to the marketable stage. Thus we were able to successfully launch further new preparations in various indication groups, as well as augmenting our range with some individual dosage forms.

In addition, we initiated and promoted several new development projects. In view of a strong product pipeline, the management of the Dermapharm Group is confident that the company will be able to introduce a steady stream of new products onto the national markets in the various market regions.

The companies of the Dermapharm Group have always accepted challenging market conditions and also viewed them as an opportunity. We were able to further increase our year-on-year sales of certain preparations and thus achieve better results. In 2016 our German Group companies were able to renew a selected number of strategically important rebate contracts with well-known statutory health insurances, as well as concluding some new ones. However, thanks to our balanced product portfolio we managed to further reduce our overall dependence on low-margin rebate contracts with health insurance schemes. The relevant revenue share is now down to just 13% of our total revenue in Germany.

With effect from January 2, 2017 Dermapharm AG acquired the remaining 15% of the shares in axicorp GmbH, Friedrichsdorf, and thus now has a 100% shareholding.

The Dermapharm Group has registered year-on-year revenue growth of 15% (2015: -2%, taking our consolidated revenue to kEUR 444,478 (2015: 384,843, 2014: 391,340). Therefore our expectations under these challenging market conditions were fully satisfied.

With the effective date of August 18, 2017 Cancernova GmbH onkologische Arzneimittel, Brehna, was merged retrospectively on Januar, 1 2017 with mibe GmbH Arzneimittel, Brehna.

With the effective date of August 18, 2017 East Pharma AG, Grünwald, was merged with mibe GmbH Arzneimittel, Brehna with retroactive effect to January, 1 2017.

3. Business situation

Results of operations:

In its 2015 outlook for the 2016 financial year the Management Board predicted moderate increases in revenue and profits.

Revenue: in financial year 2016, with very varying performance in different countries, we increased total consolidated revenue by 15% to kEUR 444,478 (2015: kEUR 384,843, 2014: kEUR 391,340), thus exceeding our 2015 forecast. The increase of kEUR 59,635 in 2016 compared to 2015 can be traced back to successful product launches, strong growth of our flagship product "Dekristol 20.000 I.E." and the positive development of the axicorp group division. The slight decrease of kEUR 6,497 in 2015 compared to the previous year can be explained by the deconsolidation of group companies not active in the pharmaceutical industry.

Other operating income: after consolidation: the 2016 other operating income amounted to kEUR 9,916 (2015: kEUR 9,944, 2014: kEUR 6,221). It was affected by the reversal of the government grants recorded in financial liabilities of kEUR 2,238 (2015: kEUR 3,357, 2014: kEUR 2,399). No significant changes can be observed from 2015 to 2016.

Cost of materials: the consolidated 2016 cost of materials were kEUR 252,756 (2015: kEUR 215,912, 2014: kEUR 237,077). Thus, cost of materials accounted for 57% of revenue in financial year 2016 (2015: 56%, 2014: 61%). The increase in cost of materials in 2016 compared to the previous financial year amounted to 17% (2015: decrease in cost of materials of -9%).

Personnel costs: the 2016 personnel costs after consolidation increased to kEUR 58,749 (2015: kEUR 55,739, 2014: kEUR 57,676). Their proportion of revenue was 13.22%, and therefore 1.27% percentage points lower compared to the previous year (2015: 14.48% 2014: 14.74%).

Other operating expenses: other operating expenses increased to kEUR 50,955 (2015: kEUR 50,322, 2014: kEUR: 48,029).

EBITDA: the 2016 EBITDA after consolidation amounted to kEUR 102,706 (2015: kEUR 84,669, 2014: kEUR 72,407).

Operating income: after consolidation, the operating income increased by 42.84% and amounted to kEUR 86,794(2015: kEUR 60,763, 2014: kEUR 43,255). This exceeded our 2015 forecast. Again, the increase can be explained by successful product launches, the growth in sales of our flagship product "Dekristol 20.000 I.E." and the positive development of the axicorp division.

EBT: the 2016 Earnings before Taxes after consolidation amounted to KEUR 82,866 (2015: kEUR 55,299, 2014: kEUR 35,487) The EBT accounted for 19% of revenue (2015: 14%, 2014: 9%).

Germany market region:

Cancernova GmbH fell short of its 2015 results. Accordingly in the German market all our leading companies again managed to increase their year-on-year revenue before consolidation. We achieved revenue growth before consolidation of 16.48% which resulted in revenue of kEUR 534,548 in financial year 2016 (2015: kEUR 458,924, 2014: kEUR 471,614). The revenue generated by this market region thus amounted to 94.13% of Group revenue (2015: 94.82% 2014: 94.77%).

The continuous revision and adjustment of the Group's product portfolio, the rigorous exploitation of synergies within the Group and selective involvement in strategically important statutory health insurance rebate contract tendering processes has led to a sustained process of adaptation to ever-changing market conditions and demand mechanisms.

The axicorp group's parallel importing business was adversely affected by the general decline in the market for importable medicines. According to the market research institute Insight Health this market fell by 1.9% during 2016. However, according to IMS Health, axicorp itself registered external revenue growth of 13.8% in a slightly declining market. Axicorp's market share was 9.2%, putting it in 4th place among importers into Germany.

Dermapharm AG, Grünwald:

Revenue: Dermapharm AG's year-on-year revenue increased by 15.17% (2015: 6.17%) to kEUR 52,162 (2015: kEUR 45,290, 2014: kEUR 42,658). Operating income: the 2016 operating income came in at kEUR 11,590 (2015: kEUR 13,813, 2014: kEUR 12,733). The 2016 decrease of kEUR 2,223 mainly results from an increase in other operating expenses.

mibe GmbH Arzneimittel, Brehna:

The revenue generated by mibe GmbH in 2016 from its own preparations amounted to kEUR 98,573. The production revenue generated intragroup and from contract manufacturing by external companies came to kEUR 98,800. Accordingly the total revenue amounted to kEUR 197,373 (2015: kEUR 176,831, 2014: kEUR 167,794). The increase of kEUR 20,542 in 2016 (2015: kEUR 9,037) compared to the previous year can be explained by successful new product launches and the positive development of our flagship product "Dekristol 20.000 I.E.".
The 2016 Operating income before consolidation increased to kEUR 52,726 (2015: kEUR 43,011, 2014: kEUR 21,822). The increase of kEUR 9,715 (2015: kEUR 21,189) compared to the previous year is due to the fact that the operating expenses only increased slightly (2015: decreased) compared to the relatively sharp increase in revenue.

acis Arzneimittel GmbH, Grünwald:

The revenue of acis Arzneimittel GmbH, Grünwald, increased to kEUR 11,672 (2015: kEUR 5,752, 2014: kEUR 5,347). The increase amounting to kEUR 5,920 (2015: kEUR 405) can be explained by a change in the allocation of revenues from mibe GmbH Arzneimittel (producing entity) to the selling entity.
The 2016 operating income amounted to kEUR 3,339 (2015: kEUR 4,561, 2014: kEUR 4,442). The increase in revenue was offset by higher costs of materials resulting from the reallocation of costs and thus, operating income decreased by kEUR 1,222 (2015: increase of kEUR 119).

Cancernova GmbH onkologische Arzneimittel, Grünwald:

The revenue of Cancernova GmbH, Grünwald decreased by kEUR 1,627 (2015: kEUR 7,305) to kEUR 315 (2015: kEUR 1,942, 2014: kEUR 9,247). This decline in revenue was mainly due to market uncertainties caused by counterfeit reimported drugs. As a result, the company has no longer been actively pursuing its business model since 2015, rather confining itself to selling off its existing inventory. The 2016 operating income amounted to kEUR 19 (2015: kEUR 1,980, 2014: kEUR 200).

Anton Hübner GmbH & Co. KG, Ehrenkirchen:

The revenue of Anton Hübner GmbH & Co. KG, Ehrenkirchen amounted to kEUR 22,765 (2015: kEUR 19,727, 2014: kEUR 19,367), representing a year-on-year increase of 15.40% (2015: 1.85%). The increase in revenue can be explained by a positive development of existing product sales.

The 2016 operating income decreased by kEUR 486 to kEUR 1,549 (2015: kEUR 2,035, 2014: kEUR 499). The growth in revenue is offset by increased production costs of the flagship product.

Hübner Naturarzneimittel GmbH, Grünwald:

The revenue of Hübner Naturarzneimittel GmbH amounted to kEUR 6,626, slightly up on the 2015 figure of kEUR 6,340 (2014: kEUR 3,023). The 2016 operating income totalled kEUR 26 (2015: kEUR 694, 2014: kEUR 1,357). In 2016, revenue and corresponding costs are allocated to Hübner Naturarzneimittel GmbH and not to the producing entity as in previous financial years. Thus, adjusted for this effect, the revenue and the operating income of the entity decreased. This can be explained by a general negative trend in sales by health food shops on which the entity relies.

axicorp group, Friedrichsdorf:

The revenue of axicorp group, Friedrichsdorf, registered year-on-year growth of 20.99% (2015: -5.48%) to kEUR 235,946 (2015: kEUR 195,012, 2014: kEUR 206,327). During 2016 the market for importable drugs declined slightly. Despite this, by increasing its market share the axicorp group division succeeded in significantly increasing its revenue from parallel imports. At kEUR 19,400, new launches made a major contribution to the result. Thanks to rigorous portfolio optimisation, the gross profit in this field grew slightly more than the revenue.

After the purchase of a 75.1% stake in remedix GmbH, the narcotics division is now represented in the parallel imports portfolio. As expected, in the year of acquisition this line of business made a negative contribution to the result, but the axicorp group has absorbed this without problems.

The OTC division performed very well, with revenue growth of 40%.

Despite the negative effect from the initial consolidation of remedix GmbH, the axicorp group's operating income rose to 5,057 (2015: kEUR 2,195, 2014: 2,981).

On January 2, 2017 Dermapharm AG, Grünwald acquired the remaining 15% of the shares in axicorp GmbH, Friedrichshafen, thereby holding 100% (2015: 85%) of the shares in the axicorp group from 2017 onwards.

<u>Central Europe market region:</u>

In this market the revenue increased by 6.66% (2015: 11.4%), and amounted to kEUR 20,251 (2015: kEUR 18,987, 2014: kEUR 17,034). The revenue within this market region amounted to 3.57% of Group revenue (2015: 3.92%, 2014: 3.42%).

In Austria and Switzerland all our companies again increased their revenue. These subsidiaries are continuously supplied with new products, both developed in-house and through in-registration from Germany, thus enabling them to reinforce and further build up their product portfolios.

Dermapharm GmbH, Austria:

Despite a difficult market environment, Dermapharm GmbH of Vienna succeeded in increasing its revenue by 4.38% (2015: 7.54%) to kEUR 7,912 (2015: kEUR 7,579, 2014: kEUR 7,048). The 2016 operating income amounted to kEUR 2,989 (2015: kEUR 2,655, 2014: kEUR 2,241).

Melasan GmbH, Austria:

The revenue of Melasan GmbH, Eugendorf, amounted to kEUR 6,403 in 2016 (2015: kEUR 5,591, 2014: kEUR 4,933), an increase of 14.51% (2015: 13.34%). The 2016 operating income amounted to kEUR 1,274 (2015: kEUR 1,097, 2014: kEUR 1,112). In 2016 Dermapharm GmbH, Vienna held 100% (2015: 75%, 2014: 75%) of the shares in Melasan GmbH.

Dermapharm AG, Switzerland:

In 2016 the revenue of Dermapharm AG of Hünenberg increased by 2.07% up to kEUR 5,936, compared to kEUR 5,816 in 2015 (2014: kEUR 5,053). The 2016 Operating income amounted to kEUR 2,009 (2015: kEUR 3,327, 2014: kEUR 1,519).

<u>Eastern Europe market region:</u>

The revenue generated in this market region accounted for 2.30% of Group revenue (2015: 1.26%, 2014: 1.81%).

Sun-Farm Sp.z.o.o., Poland:

Sun-Farm Sp.z.o.o. of Warsaw succeeded in increasing its year-on-year revenue by 17.14%, taking it to kEUR 5,980 in 2016 (2015: kEUR 5,105, 2014: kEUR 4,006). This is mainly due to a steady supply of new products which have been granted marketing authorisation. The 2016 operating income amounted to kEUR 905 (2015: kEUR 729, 2014: kEUR 106).

Farmal d.d. / Mibe Pharmaceuticals, Croatia:

The total 2016 revenue of the Croatian subsidiaries amounted to kEUR 7,099 (2015: kEUR 999, 2014: kEUR 4,986). The reason for the sharp increase of revenue in 2016 is that in 2016, Dermapharm AG waived claims against Farmal d.d., Zagreb HR totalling kEUR 6.500 regarding loans granted. Dermapharm AG has written this sum off. As a result the 2016 operating income amounted to kEUR 5,146 (2015: kEUR 3,192, 2014: 1,738). Without the write-off by Dermapharm AG, the result from ordinary activities would have amounted to a loss of kEUR 1,354.

The main reason for this is the utterly stringent government regulation of the market, with cost budgets frozen at the 2011 level and government reference price lists coupled with general price rebates and fixed amounts. Since the beginning of 2014 the government statutory health insurance HZZO has imposed four further general price cuts. On top of this the result was further compromised by one-off effects due to the restructuring of the company into a pure sales enterprise. The management board has implemented a suitable package of measures designed to effectively counteract the adverse market conditions.

<u>Development:</u>

In line with its business model, the Dermapharm Group does not conduct any fundamental pharmaceutical research, in view of which the development costs are exclusively attributable to costs for the development of pharmaceutical ingredients which are no longer patent-protected.

<u>Procurement:</u>

All base materials such as active ingredients, raw materials and consumables for the various preparations sold by the Group are procured centrally by mibe GmbH Arzneimittel. As additional drug categories were switched to in-house production, volumes can be further bundled, enabling the Group to benefit from significant synergies when negotiating direct supply contracts.

<u>Production:</u>

The continuous transfer to Brehna of the production of drugs formerly produced externally under contract means that capacity utilisation has been further improved. The introduction of highly specialised new production techniques in connection with the expansion of production worked without interferences and was a success.

This has permitted further reductions in our group companies' procurement costs and generated further synergies in our purchasing, production and logistic processes, while our independence from external supply sources was simultaneously increased.

Through adequate investments our production facilities will be maintained at the level required both by law and for technical production reasons. We invested a total of kEUR 3,518 (2015: 2,293, 2014: 4,886) on the expansion and refurbishment of production facilities and plants.

Net assets, financial position and liquidity:

Dermapharm Group's net assets and financial position remains constant, while the Group's liquidity was guaranteed at all times throughout financial year 2016.

Intangible assets: as of December 31, 2016 our intangible assets amounted to kEUR 87,058, of which kEUR 17,033 was attributable to goodwill (December 31, 2015: kEUR 16,444, December 31, 2014: kEUR 21,553, January 1, 2014: kEUR 26,743). The increase in goodwill as at December 31, 2016 can be attributed to the acquisition of Remedix GmbH, Koblenz. KEur 22,368 of intangible assets was attributable to capitalised development costs (December 31, 2015: 15,192, December 31, 2014: 7,826, January 1, 2014: 8,452).

Property, plant and equipment: as of December 31, 2016 property, plant and equipment of the group amounted to kEUR 53,357 (December 31, 2015: kEUR 53,406, December 31, 2014: kEUR 56,547, January 1, 2014: kEUR 57,352).

Inventories: the increase in inventories by kEUR 7,828 to kEUR 84,781 (December 31, 2015: kEUR 76,953, December 31, 2014: kEUR 71,516, January 1, 2014: kEUR 68,240) was mainly due to the expansion of the product portfolios of individual Group companies or to building up suitable stock volumes.

Trade receivables: as of the balance sheet date on December 31, 2016 trade receivables amounted to kEUR 26,302, and therefore significantly above the 2015 level of kEUR 17,423 (December 31, 2014: kEUR 22,791, January 1, 2014: 22,388). Essentially the increase is due to timing effects and the corresponding cash flows as well as an increase in total revenue.

Investments: Investments were mainly made in the fields of production expansion and optimisation as well as obtaining product and name rights in order to expand the product portfolio. During 2016 a total amount of kEUR 11,837 was invested for these purposes. 72.11% of the investments can be attributed to development projects.

The principle sources of liquidity were cash inflows from ongoing business operations as well as short-, medium- and long-term loans.

Participation rights: Dermapharm AG has issued participation rights to a total value of kEUR 10,856, with maturities in 2017 and 2018. Throughout their term, participation rights holders receive constant guaranteed remuneration as well as a potential profit share of 2% of the nominal amount, while also participating in any losses up to the nominal amount.

Promissory note loans: as of the balance sheet date, for the long-term financing of the Dermapharm Group, Dermapharm AG took out a promissory note loan in 2012 and another one in 2014, amounting to nominal values of kEUR 50,000 and kEUR 78,000 respectively. The notes have term-related maturities in 2017, 2019 and 2021. This enabled the Group to secure the current extremely low interest rates for the coming years as well.

Bank loans: Bank loans with variable agreed interest rates are hedged through the use of corresponding interest rate derivatives.

4. Financial and non-financial performance indicators

Financial performance indicators:

To achieve our strategic goals we need existing performance indicators in order to gauge the success of our actions. The basis for this is a reliable and comprehensible system of financial and controlling information. We work continuously to improve the information available.

Our major performance indicator at the Group level and for the individual subsidiaries is EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) before one-off effects. This is calculated based on EBIT before depreciation and amortisation and without taking one-off effects into account. Every operational decision or action is assessed in the short- and long-term by its sustained effect on EBITDA. During the annual budget and planning process, targets are set for these indicators of Group performance. Pure income parameters, such as an exclusive consideration of the revenue, are not amongst our Group's performance indicators since they do not allow us to draw any direct interference about our profitability.

Early indicators allow us to promptly detect significant changes to the net assets, financial position and results of operations and take appropriate action.

As the starting point for our corporate management, the annual budget and planning process delivers the benchmark figures for the Group's profitability and internal financing. This information is utilized for financing and investment decision. To ensure that changing market and competitive conditions are reflected in the management decision-making process within a timely manner, operational forecasts are prepared if necessary in order to update the budget for the year and likewise the related Group management benchmark figures. In addition, regular forecasts are prepared regarding the key performance indicators. Furthermore, continuously updated growth forecasts from the various sales regions are consulted when preparing and examining sales and investment decisions.

Non-financial performance indicators:

Alongside key indicators for the assessment of Dermapharm Group's financial performance, non-financial performance indicators also play a vital role in ensuring the Group's long-term success. In this context the topics of corporate responsibility, quality assurance, quality control and environmental protection are of central importance.

As an internationally operating pharmaceuticals and health-care group we are committed to assume responsibility.

The fact that Dermapharm Group takes its social responsibilities seriously and that the Group makes an important contribution to sustainable societal development is immediately apparent from our core business activity. By combining favourable prices with best quality, generics contribute to the running of an efficient and affordable health-care system.

The Group's central location for the development and manufacture of medicines is mibe GmbH Arzneimittel, which is domiciled in Brehna near Leipzig. This modern medicines production facility is a clear testament to the Group's commitment to Germany as a location. Currently the plant provides over 500 people from the local region with secure place of employment.
Central to our activities is the goal of offering products of outstanding quality and efficacy at economic prices, thereby meeting the high requirements placed on a contemporary pharmaceutical enterprise by a dynamic health-care system, doctors, pharmacists and above all patients. Our paramount objective is to offer medicines of consistently high quality at all times. Highly qualified employees in the fields of quality assurance, analytical quality control and drug safety work are continuously entrusted to improve processes and monitor our products. We ensure that the Group's quality standards are applied all along the value chain. To guarantee this, Dermapharm Group's quality assurance and quality control systems are oriented to the guidelines laid down in the European Good Manufacturing Practice Standards (EU GMP Standards).

Dermapharm Group also sets great store by environmental protection. This means more than just complying with prevailing environmental law. GMP certification means that the Group already satisfies all environmental requirements as far as the delivery chain, but we make a further contribution by producing all our medicines by environmentally friendly means in state-of-the-art plants. This includes the preferential use of environmentally friendly raw materials and of FSC-certified paper (Forest Stewardship Council) for medical packaging, pack leaflets, letterhead paper and other printed products.

Furthermore, Dermapharm Group's business model does not include the manufacture of any active ingredients, which means that our operations do not entail any significant emission risks.

Dermapharm Group also takes its social responsibilities seriously and supports various dedicated individuals, initiatives and groups. For example, we donate medication to humanitarian projects in Germany and abroad, energetically support McDonald's Kinderhilfe and also charitable organisations such as Münchner Tafel and brotZeit. We also provide financial aid for the Laureus Sport for Good Foundation, which improves the social living conditions of children in Germany and Austria through a variety of sport-related projects.

5. Comparison with previous year

In 2016 Dermapharm Group reported a solid business performance which exceeded the Management Board's expectations and which, after elimination of the special items described above, corresponded with the outlook for 2016 in terms of revenue and operating income.

III. Supplementary report

Between December 31, 2016 and the date of signing the Management Report for 2016, there were no further occurrences of special significance which could be expected to have a material effect on Dermapharm Group's net assets, financial position or results of operations.

IV. Outlook

Overall economic performance:

For 2017 the International Monetary Fund (IMF)[3)] expects a moderate resurgence of economic activity, with global growth coming in at 3.4%. The IMF's forecast for the developed economies is 1.9%, with Eurozone countries expected to register growth of around 1.6%. Meanwhile estimates put Germany's GDP growth at 1.5%.

The European Central Bank (ECB)[4)] is expecting a continuation of the economic recovery and consolidation in the Eurozone, favoured by internal economic demand.

The ECB's monetary policy decisions have successfully contributed to safeguarding the very favourable financing conditions which are needed to ensure that the inflation rate is maintained below, but close to, 2% over the medium term. As expected, overall inflation has risen recently, mainly due to base effects in relation to energy prices.

As previously, the action taken by the ECB has had a positive impact on the credit conditions for companies and private households. This has supported domestic demand while also facilitating the ongoing debt reduction process. The very favourable financing conditions and improvements in companies' results of operation will continue to aid the recovery in investment activity. Furthermore, the continuing growth in employment, which is also benefiting from past structural reforms, will foster private consumer spending as the real disposable incomes of private households increases.

Meanwhile, there are also signs of a somewhat stronger worldwide recovery. However, economic growth in the eurozone is expected to be dampened by the slow-moving implementation of structural reforms and still outstanding balance sheet adjustments in a range of sectors. When it comes to growth prospects in the eurozone, downside risks deriving chiefly from global factors continue to predominate.

Meanwhile, a tightening of global financing conditions can be observed, and capital is being removed from the emerging economies. Due to the diminishing deflationary influence of low energy prices, general worldwide inflation rates are on the rise. Accordingly, economic growth prospects at global level remain compromised by downside risks arising chiefly from political uncertainties and financial imbalances.

Industry-specific performance:

Due to government regulation and massive intervention in the commercial autonomy of pharmaceutical companies, the situation will remain challenging over the coming years. In our core market, Germany, the leading industry associations do not expect any significant changes during the current parliamentary term.

Continuing future growth is expected for the worldwide pharmaceutical industry, given that demand in the health-care industry is steadily rising and the fact that medicines show a relatively high degree of efficiency as compared with other treatment methods. The QuintilesIMS Institute[5)] forecasts that the international pharmaceutical industry's turnover will rise by 4-7% per year between now and 2021, and total expenditure on medicine is predicted to stand at around USD 1.5 trillion by 2021. Growth in Europe up to 2021 is forecast to be 1-4%, and in Germany 2-5%.

For the global generics market IMS Prognosis[6)] is forecasting annual growth of up to 8.0% between now and 2021. However, it must be borne in mind that the actual growth rates in terms of disclosed revenue in markets where substantial rebates have to be granted are likely to be significantly lower than the ones predicted by market research institutes, which as a rule are based on gross revenue before rebates. The average annual generics growth rate in the EU (EU 28) from 2017 to 2019 is forecast to be around 3.9%.

The management board of the Dermapharm Group therefore has no reason from today's view, to make any fundamental changes for the upcoming financial year to business policies which have proven successful to date.

Thanks to the ongoing cost optimisation of our purchasing and production operations, expanded product development, the launch of further newly registered products, flexible adaptation to prevailing conditions and the rigorous exploitation of synergies within the Group companies, we are convinced that we shall continue to successfully overcome the challenges posed by the generics market.

Against this backdrop we are expecting a positive overall commercial performance in 2017, with moderate rises in revenue coupled with corresponding rises in costs, EBIDTA and the Operating income.

V. Risk and opportunities report

1. Risk report

The business model of the Dermapharm Group is geared to markets with long-term growth potential coupled with growth opportunities in the health-care and pharma markets. However, the model is subject to certain challenges and risks, arising in particular from changes to government regulations and intense competition. Therefore the Group management takes the view that in future there will always be a possibility of drastic regulatory intervention, fierce competition, pressure on margins and default risks.

Regulatory risks:

The pharmaceutical and health-care industry is subject to a variety of regulations. The rescinding or amendment of existing regulations or the imposition of new ones could have a significant economic and strategic impact on the Group's commercial success. Of key importance here are regulations at national or multinational level which concern market structures, pricing and/or the registration of products on public health-care systems.

In principle any product in the health care market faces the risk of limitation or reduction of cost refunds due to regulatory interventions in the various national social security systems. However, pharmaceutical products are particularly exposed to this risk. This may reduce the profitability of individual products and even lead in some cases to an unprofitable market launch of a new product.

Precise forecasts regarding the introduction of changes or the extent thereof cannot be made, since any such regulations depend on the political processes of the respective country or on judicial decisions. The Dermapharm Group pursues an active risk minimisation policy involving careful monitoring of relevant regulatory sources and identifying alternative courses of action on the basis of the information gained.

Income-oriented risks:

The rise of new competitors may have an adverse impact on market conditions. Furthermore, some competitors may be able to influence market conditions due to their financial and/or organisational resources, production capacities, sales strength and/or market power in ways which have a negative impact on the Dermapharm Group. Specifically, this involves activities which influence the pricing in relation to tendering for rebate contracts, the range offered and scope of service and/or the delivery and rebate conditions in order to secure or strengthen their own competitive position.

Moreover, a change in market conditions due to the growing purchasing power of individual customer groups such as doctors, pharmacy chains, statutory health insurances, buying groups or wholesale associations could intensify competition in terms of prices, conditions and/or services, as well as leading to adverse circumstances in relation to tenders for rebate contracts. The Dermapharm Group pursues an active risk minimisation policy involving careful monitoring of relevant market participants and identifying alternative courses of action on the basis of the information gained.

Product portfolio risks

During the process of developing and seeking market authorisation for each individual product, careful compliance with relevant legal provisions is highly relevant.

In the case of generics this applies notably regarding compliance with industrial property rights such as patents and SPCs. If individual legal provisions are breached this may lead to delays in or even the prevention of the sale of a new product due to legal action taken by competitors or refusal of marketing authorisation by the regulatory authorities. If we sell products on the assumption that there are no legal impediments to doing so, but judicial decisions rule that this assumption was false, the risk arises that we will have to withdraw products from the market at considerable cost, and will then have to write off and destroy existing and recalled inventory. Moreover, there will be an additional risk of having to pay substantial damages claims, among other things due to the breach of industrial property rights.

Despite intensive testing and studies, it is possible that side effects of, or initially concealed defects in, existing products are not discovered until after they are registered or during their marketing. Another possibility is that new scientific findings lead to a less favourable risk-benefit analysis, as a result of which the drug may have to be wholly or partially withdrawn from the market. Any such halt to sales may be due to either legal or official action or as a voluntary step taken in line with the company's social responsibilities. Furthermore, legal action and associated claims for damages resulting from such occurrences may have a significant negative impact on overall profits.

The Dermapharm Group pursues an active risk minimisation policy involving careful monitoring of relevant regulatory sources and databases of industrial property rights and identifying alternative courses of action on the basis of the information gained.

Economic performance risks:

Lack of production plant availability or disruptions of working or process safety may cause that production targets cannot be met and existing demand cannot be adequately satisfied, this may lead to a decline in contribution margins.

We take wide-ranging measures to counter the risk of any such scenario. These include proactive plant maintenance, hazard assessments and the systematic training of our employees in order to improve standards and safety levels.

On the procurement side risks arise in relation to the volatility of raw material and energy prices. Increases in the prices of input materials lead directly to a higher production cost base, while a decline in the price of input materials may entail recognising impairment losses on inventories.

We counteract these risks through well thought-out inventory and procurement policies. A large part of our raw material requirements are covered by long-term supply contracts and by price adjustment clauses in our contracts with suppliers. We protect ourselves against possible supply bottlenecks, for instance due to a supplier becoming insolvent, through a suitable stockpiling strategy coupled with the use of alternative supply sources.

Reimporting risks:

Further risks arise in relation to the procurement of reimported medicines by the axicorp group. Alongside increased purchase prices, supply bottlenecks and exchange rate fluctuations, attempts by original manufacturers to apply quotas to European markets may have an adverse impact on returns. Export restrictions of the kind currently under discussion in several EU countries, and in some cases (de facto in the form of export notification obligations for certain active ingredients) the subject of attempts to implement them, represent a procurement risk, albeit one which is highly controversial under EU law.

Overall risk identification and the assessment and implementation of countermeasures are done regularly by the management team according to the quality guidelines of the axicorp QA system (DIN EN ISO 9001:2008 – Preventive Measures & Management Processes). Most important among these are the early preparation and assessment of case scenarios.

Financial risks:

Fundamental liquidity risks would arise if the Dermapharm Group were unable to provide sufficient liquid assets. This could for instance arise due to inadequate loan facilities, the loss of existing cash positions, lack of access to financing markets or severe volatility in our business operations. The aim of liquidity management is to safeguard solvency at all times as well as to ensure financial flexibility through the availability of sufficient cash reserves and available loan facilities.

The Dermapharm Group accounting and reporting currency is the euro. However, due to the international nature of our business operations the Group is exposed to exchange rate fluctuation risk. This entails the risk of possible changes of value, in particular of accounts payable and receivable in a currency other than the relevant functional currency.

A risk of balance sheet effects may arise due to exchange rate fluctuations in the consolidated financial statements, through the translation of balance sheet items as well as the income and expenses of foreign Group companies using a local currency other than the euro. In these cases an increase in the value of the euro as compared with other currencies would have a generally negative impact and a fall in its value a positive one.

Due to the Dermapharm Group's stable liquidity and equity position, no liquidity risks are currently discernible.

Risk of liability and damages:

The risk of liability and damages arising during the course of our business activities and the sale of pharmaceutical preparations is limited by suitable insurance policies, in particular a pharmaceutical products liability insurance policy.

Tax risks:

Tax matters are subject to a degree of uncertainty regarding the rulings made by domestic or foreign tax authorities. Even if we are convinced that we have conducted all our tax matters correctly and lawfully, it cannot be ruled out that in a given individual case the tax authorities might come to a different conclusion.

Other risks:

Like any company, the Dermapharm Group is exposed in the various market regions to other general business risks such as the risk of unexpected disruption of infrastructure, strikes, sabotage, natural disasters, criminal activities, terrorism, wars and other unforeseeable significantly adverse events. In so far as it is possible and economically feasible, we safeguard ourselves against such events through suitable insurance policies. However, it cannot be ruled out that this insurance would prove insufficient in individual cases.

2. Opportunities report

According to the Federal Pharmaceutical Industry Association *(Bundesverband der Pharmazeutischen Industrie e.V. - BPI)*, the pharmaceutical industry will in future remain largely independent of the economic cycle and be one of the most dynamic worldwide growth markets. The most important drivers of this trend are increasing life expectancy in the developed world, global population growth and the increasingly chronic nature of lifestyle diseases and nutrition-related disorders.

By economic comparison with other forms of treatment, medicines remain particularly efficient. Generics show especially high growth potential since they permit economic treatment costs without having to accept any loss of quality. They therefore make a substantial contribution to counteract the growing cost pressure on health-care systems. The steady expiry of patents and protective rights will lead to a continuing expansion in the market potential open to generic competition.

We are actively driving forward the strategic development of the Dermapharm Group. This involves continuous efficiency optimisation, the reinforcement of the core areas, active portfolio management as well as active participation in industry consolidation through partnerships, divestments and acquisitions.

Our international sales structure is designed to facilitate the sale of the products in our Group portfolio, duly adapted to the varying regulatory and competitive conditions in the individual national market regions.

To ensure profitability, efficient cost management will continue to be a key consideration. Our continuous cost optimisation will remain focused on manufacturing and all associated costs, as these represent the Group's largest cost items. Opportunities arise through the reduction of manufacturing costs via in-house production and suppliers sharing in the market risk.

We will continue to oppose market competition through our experience, new market authorisations, reliability and high quality levels. We maintain our high quality standards through internal process and quality controls. For instance, we produce exclusively in compliance with the international Good Manufacturing Practice standards.

3. Summary

We see ongoing future development risks from a challenging, government-regulated competitive environment, volatile raw material prices and stagnating price levels due to the government-initiated price moratorium.
However, given our financial stability we view ourselves as well equipped to conquer future risks. No risks which could jeopardise the company's survival are currently discernible.

VI. Risk report on the use of financial instruments

The aim of the Group's financial and risk management activities is to protect our business from financial risks of all manners. The Dermapharm Group pursues a conservative financing policy characterised by secure long-term financing and the proactive controlling of financial risks.

The Dermapharm Group is financed through medium- and long-term loans from banks, as well as notes receivable. In addition, we possess sound operational cash flow as well as loan facilities with various banks which can be drawn on as required.

To limit the risk of cash flow fluctuations from transactions in foreign currencies on the purchasing side, the axicorp group employs financial instruments, namely currency forwards and option contracts. For the purpose, counteracting underlying and hedging transactions are combined to form anticipatory valuation units (micro-hedges). Financial instruments are taken out exclusively at commercial banks with high credit ratings. The extent of the hedging is determined by rolling purchase planning.

The Group companies in Germany have a solvent customer base with high credit ratings, and defaults among them are extremely rare. Accordingly we do not have any commercial credit insurance. To minimise the default risks the Group operates a suitable receivables management system, and before entering into a new business relationship we always gather information about the customer's credit rating.

Accounts payable are settled within the agreed periods, availing ourselves of trade rebates wherever possible.

For short-term purposes the Dermapharm Group predominantly uses either loan facilities with various banks or its own funds.

The Dermapharm AG entered into two currency-related-swaps with the UniCredit Bank AG. Maturity date is April 2018 respectively April 2020.

Due to the EURCHF exchange rate in 2014 and the regulation of a lower limit at 1.20 EURCHF set by the Swiss National Bank (SNB) in September 2011 the maximal exchange rate risk amounted to mEUR 1.4 per annum. This minimum exchange rate was abandoned on January 16, 2015 by the SNB so that higher yearly interest charges have become possible.

We have initiated legal actions and have filed a suit to terminate the contracts as well as to reimburse already paid interest and fees.

If, contrary to our expectations, a financial damage arises from this, the parent company has confirmed to reimburse the Group for the corresponding liabilities.

VII. Branch offices report

The Dermapharm Group does not maintain any branch offices.

Grünwald, 29 September 2017, the Management Board

Stefan Hümer Chief Financial Officer	Karin Samusch Head of Development

Independent Auditor’s Report

To Dermapharm AG

Opinion

We have audited the consolidated financial statements of Dermapharm AG, Grünwald, and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 31 December 2015 and 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Germany, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is 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, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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 to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with ISAs, 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, 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 opinion. 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. 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 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 represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Düsseldorf, 15 January 2018

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Thomas Senger	André Prengel
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)