ANNUAL REPORT
2018

Dermapharm Holding SE

CONSOLIDATED RESULTS AT A GLANCE

		2018	2017
Revenue	EUR million	572.4	467.1
Adjusted EBITDA	EUR million	143.4	112.9
Adjusted EBITDA Margin	%	25.1	24.2
Unadjusted EBITDA	EUR million	139.6	110.2
Unadjusted EBITDA Margin	%	24.4	23.6
Operating income	EUR million	107.5	92.1
Earnings before taxes	EUR million	104.2	88.0
Profit or (loss) for the period	EUR million	75.2	77.7
Earnings per share	EUR	1.41	1.56
Dividend proposal	EUR	0.77	-
Balance sheet	EUR million	704.6	415.3
Equity	EUR million	256.1	73.7
Equity ratio	%	36.3	17.7
Cash and cash equivalents	EUR million	212.5	6.3
Net debt	EUR million	95.2	258.5

*Dividend subject to the resolution of the Annual General Meeting on June 4, 2019

QUICK CHECK

~50

Development products

250+

Pharmaceutical ingredients

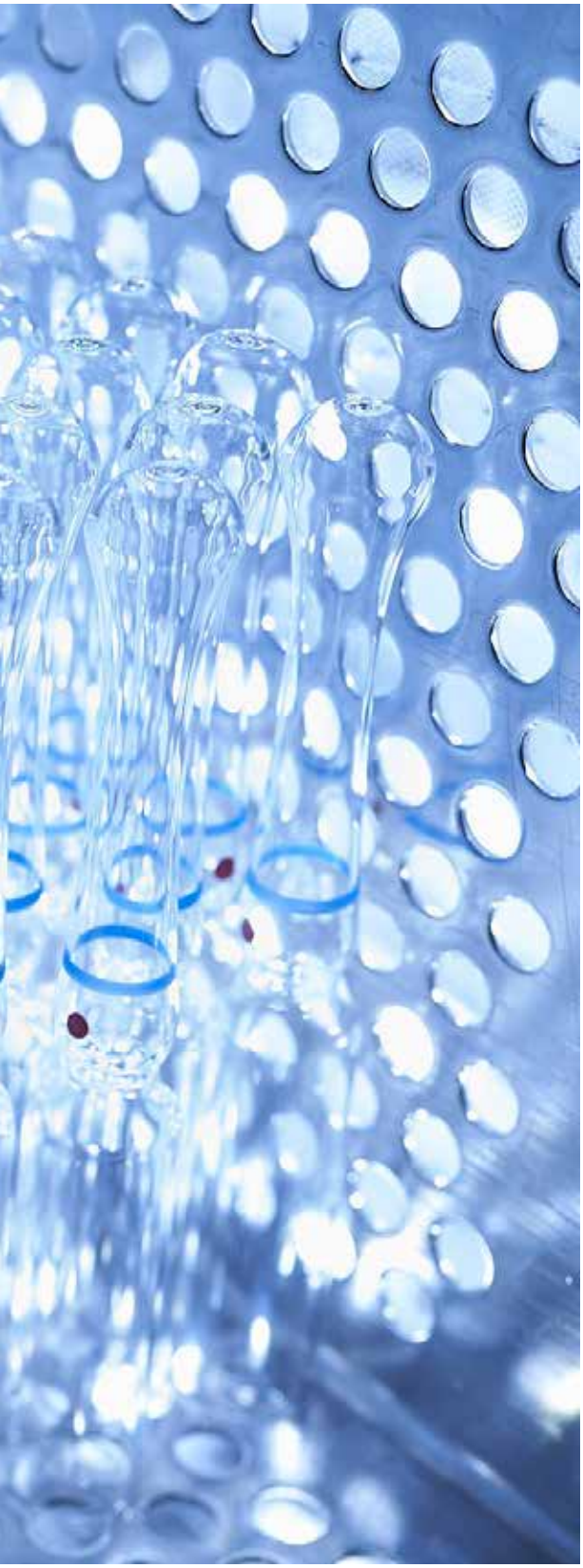
>900

Marketing authorizations

1.619

Employees

CONTENT



TO THE SHAREHOLDERS

MEMBER OF THE MANAGEMENT BOARD

Dr. Hans-Georg Feldmeier
Chief Executive Officer

Stefan Hümer
Chief Financial Officer

Karin Samusch
Chief Business Development Officer

Stefan Grieving
Chief Marketing Officer

LETTER TO THE SHAREHOLDERS

Dear shareholders,

2018 for Dermapharm was dominated by our successfully executed IPO on the Prime Standard of the Frankfurt Stock Exchange, with our shares being listed for the first time on 9 February 2018. Since then, we have been in regular communication with capital market investors, and we are committed to providing timely and transparent information about the performance of our business. 2018 was also an eventful and successful year for Dermapharm beyond the IPO. It was a year in which we steadily continued with our three-pillar strategy of in-house product development, internationalisation and the review of further acquisition targets.

We leveraged our many years of research and development experience and our in-house production and distribution of pharmaceuticals to launch a large number of internally developed products on the market in selected therapy fields both domestically and abroad, products such as Summavit® materna and Verrucutan®, and to achieve increases in volume throughout our existing product portfolio. At the same time, we continually added new and promising products to our development pipeline. To a large extent we also successfully completed the complex integration of our new acquisitions as planned.

Another focus has been the internationalisation of our Group: we have formed more of our own companies in order to drive the marketing of our branded products in other European markets. The clinically-tested bite away® and Herpotherm® medical devices have also been approved in the EU and many other markets and contribute to the successful progress of the internationalisation process. bite away®, a stick that uses heat to treat itching and swelling caused by insect bites, and Herpotherm®, a similarly functioning device for the treatment of "herpes labialis", are outstanding examples of our expertise in in the field of dermatology. In 2018, we successfully brought these products to market in 12 European countries, both through our own foreign subsidiaries and through external sales and distribution partners. Our aim is also to access other markets. We have already obtained initial product authorisations through our newly established branches in the UK and Italy, and these will give a positive boost to our overall performance in 2019.

In 2018, Dermapharm recorded its highest ever revenue in the Company's history and reported a sustained increase in EBITDA. Our positive performance continued in both the "Branded pharmaceuticals and other healthcare products" and "Parallel import business" divisions, and consolidated revenue increased by a total of 22.5 % on the previous year's figure to EUR 572.4 million in 2018. At the same time, EBITDA adjusted for non-recurring expenses of EUR 3.8 million in total increased disproportionately by 27.0 % to EUR 143.4 million. These non-recurring expenses, which were incurred in the first two quarters of 2018, consist of EUR 1.4 million in connection with the preparations for the IPO and EUR 2.4 million in brokerage and consulting costs incurred in connection with the acquisitions of Strathmann and Trommsdorff. Non-adjusted EBITDA for the 2018 financial year rose by 26.7 % to EUR 139.6 million.

The systematic implementation of our corporate strategy and our leveraging of further synergies within the Group were major contributors to this positive result. In particular, the newly acquired companies Strathmann and Trommsdorff leveraged existing Group structures to significantly improve their efficiency. The products acquired through these acquisitions, e.g. Myopridin®, Keltican® forte and Tromcardin® complex, complement our product portfolio perfectly. In comparison with the prior-year period, they also help us to further reduce the entire Group's dependency on direct discount agreements with health insurers for generic products and further increase the share of high-margin OTC products, i.e., pharmacy-only and non-prescription drugs.

We also have ambitious plans for 2019 and completed other initiated acquisitions at the beginning of the year. We recently acquired a 20 % stake in FYTA, a cannabis producer for pharmaceutical applications. This gives us access to the market for medical cannabis, which we believe will continue to gain in importance. On 3 January 2019, we already completed our takeover of Euromed S.A., a company specialising in the production of plant extracts and plant-based ingredients for the pharmaceutical, food supplement and cosmetics industries. By acquiring Euromed, we expanded our own value chain and strengthen our know-how in the growth market for herbal pharmaceuticals. Having our own company in Spain also

expands our international presence, and Euromed's knowledge of the local industry gives us the opportunity to bring our own products onto the Spanish market.

Dermapharm also took over the employees and assets of CFP Packaging GmbH effective 1 January 2019. Its registered office is Wiedemar, near Leipzig. This acquisition allows us to expand our production capacity by approximately 40 million sticks p.a., and at the same time establishes the prerequisites to enable us to meet the growing demand for nutritional supplements such as VITA aktiv B12 and silicea DIRECT. The plan is to relocate production and jobs to Dermapharm's nearby main production facility in Brehna over the course of 2019.

These measures are important steps towards sustainable and profitable growth in the coming years. They will help Dermapharm to continue to hone its image as a leading manufacturer of off-patent branded pharmaceuticals in selected markets and to consolidate its currently strong market position.

We would like to thank all of our shareholders for the trust you have shown in us. Our successful IPO would not have been possible without this trust. At the Annual General Meeting on 4 June 2019, we will propose to our shareholders a dividend of EUR 0.77 per share.

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

Grünwald, April 2019

The Management Board

Dr. Hans-Georg Feldmeier
Chief Executive Officer

Stefan Hümer
Chief Financial Officer

Karin Samusch
Chief Business Development Officer

Stefan Grieving
Chief Marketing Officer

REPORT OF THE SUPERVISORY BOARD ON THE 2018 FINANCIAL YEAR

Cooperation between the Management Board and the Supervisory Board

In financial year 2018, the Supervisory Board of Dermapharm Holding SE faithfully and diligently performed the duties incumbent upon it under the law and the Articles of Association. The Supervisory Board monitored and advised the Management Board on an ongoing basis. The Supervisory Board regularly received timely and comprehensive written and oral reports from the Management Board on the performance of Dermapharm Holding SE and the Group companies, the strategic direction of the Company and the progress made in implementing the corporate strategy. The Supervisory Board also received reports on material or urgent matters between meetings from the Management Board. The reservations of consent stipulated for certain transactions under the rules of procedure for the Management Board were complied with for all resolutions.

Personnel changes on the Management Board and the Supervisory Board

Mr. Lothar Lanz was appointed as member of the Supervisory Board by resolution of the Extraordinary General Meeting on 6 December 2017, with effect from 1 January 2018. He replaced Mr. Michael Beier as a member of the Supervisory Board.

Work of the Supervisory Board in financial year 2018

The Supervisory Board met five times during financial year 2018. All Supervisory Board members attended or participated in more than half of the Supervisory Board's meetings. The average attendance rate at Supervisory Board meetings in the 2018 financial year was 100 %. The members of the Management Board regularly joined the meetings of Supervisory Board, with the exception of the meeting on 26 April 2018. The Supervisory Board Chairman also attended Management Board meetings.

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

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

The Management Board also provided regular detailed reports on the competitive environment, the demand situation, market structures and the development of prices and discounts in the individual markets. These reports also focused in particular on the effects of regulatory action taken by governments, including their effects on subsidiaries, and the countermeasures taken. The primary focus was on the selective approach taken by German health insurers when announcing a call for tenders for discount agreements and the participation of our German subsidiaries in our home market.

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

The meeting on 19 April 2018 was held at the Brehna facility. In addition to visiting the production facility, the Supervisory Board discussed the financial and liquidity situations with the Management Board, in particular as it related to future investments within the Group. These discussions also covered the financing structure, the refinancing strategy and changes in the debt ratio. Preparations for the Annual General Meeting were also discussed, and the draft 2017 annual financial statements were presented. Finally, the Management Board reported on proposed investor relations activities and its regular communication with the various capital market stakeholder groups.

The Supervisory Board's meeting on 26 April 2018 was a conference call with the auditor, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf.

After extensive discussion with the auditor, the Supervisory Board approved the 2017 annual and consolidated financial statements together with the management report.

Another Supervisory Board meeting was held directly after the Annual General Meeting on 26 June 2018. The Management Board and the Supervisory Board discussed selected aspects of the corporate strategy and corporate planning. The Management Board also reported on the current business performance and the financial situation of the Dermapharm Group.

The Supervisory Board held a meeting on 10 September 2018 by way of a conference call. At this meeting, the Supervisory Board approved the 2018 half-yearly financial report and its publication on 12 September 2018.

At a further meeting on 17 October 2018, the Supervisory Board addressed reviewed, proposed and completed acquisitions and the expansion of certain production facilities. After discussion with the Management Board, the Supervisory Board also approved the now finally negotiated refinancing measures at this meeting. The Management Board also presented the draft 2019 Group budget (three-year plan) to the Supervisory Board. The Supervisory Board also considered the Company's corporate governance principles and discussed implementation of the new recommendations of the German Corporate Governance Code.

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

Remuneration of the Supervisory Board

According to Article 15 (1) of the Articles of Association, each member of the Company's Supervisory Board is entitled to fixed remuneration of EUR 70,000 for their work during the 2018 financial year. Of this amount, EUR 52,500 was paid in the 2018 financial year.

Audit of the Annual and Consolidated Financial Statements and the Combined Management Report 2018

Warth & Klein Grant Thornton AG Wirtschafts-prüfungsgesellschaft, Düsseldorf, audited the annual financial statements prepared by the Management Board in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, "HGB") as well as the consolidated financial statements and combined management report for financial year 2018 prepared on the basis of International Financial Reporting Standards (IFRS) in accordance with § 315e HGB and issued each an unqualified auditor's report.

The members of the Supervisory Board received the above documents, the proposal for the appropriation of retained earnings and the auditor's respective long-form audit report in due time. The Supervisory Board examined these at its meeting on 12 April 2019. The auditor was present at this meeting and reported on the material audit findings. Upon completion of its own examination, the Supervisory Board concurred with the auditor's findings and did not raise any objections to the annual financial statements, consolidated financial statements, the combined management report or the proposal for the appropriation of retained earnings for financial year 2018 prepared by the Management Board. As a result of the review of the Management Board's proposal for the appropriation of retained earnings conducted at the Supervisory Board meeting on 12 April 2019, which included a discussion with the auditor, we approved the Management Board's proposal for the appropriation of retained earnings and concurred with the proposal. The proposal includes the complete distribution of retained earnings of EUR 41,456,800. The annual financial statements are therefore adopted.

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

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

The members of the Supervisory Board also received the Management Board's dependent company report and the auditor's corresponding audit report in due time. The Supervisory Board examined these at its meeting on 12 April 2019. The Supervisory Board's examination of the dependent company report did not give rise to any objections. The Supervisory Board therefore concurred with the auditor's findings and, upon completion of its examination, the Supervisory Board did not raise any objections to the concluding declaration by the Management Board in the dependent company report.

In addition, the members of the Supervisory Board also received the separate non-financial report of the Management Board in good time. The Supervisory Board dealt with this issue at its meeting on April 12, 2019. The Supervisory Board's examination of the separate non-financial report did not lead to any objections. The Supervisory Board did not raise any objections to the separate non-financial report of the Management Board following the final result of its own examination.

Thanks and acknowledgements

The Supervisory Board wishes to thank the Management Board for its unfailing open and constructive cooperation this past year. We would also like to thank the employees for their hard work this past 2018 financial year. The Supervisory Board wishes the Management Board and the employees continued success in meeting the coming challenges of the new financial year.

Grünwald, April 2019

Wilhelm Beier

Chairman of the Supervisory Board

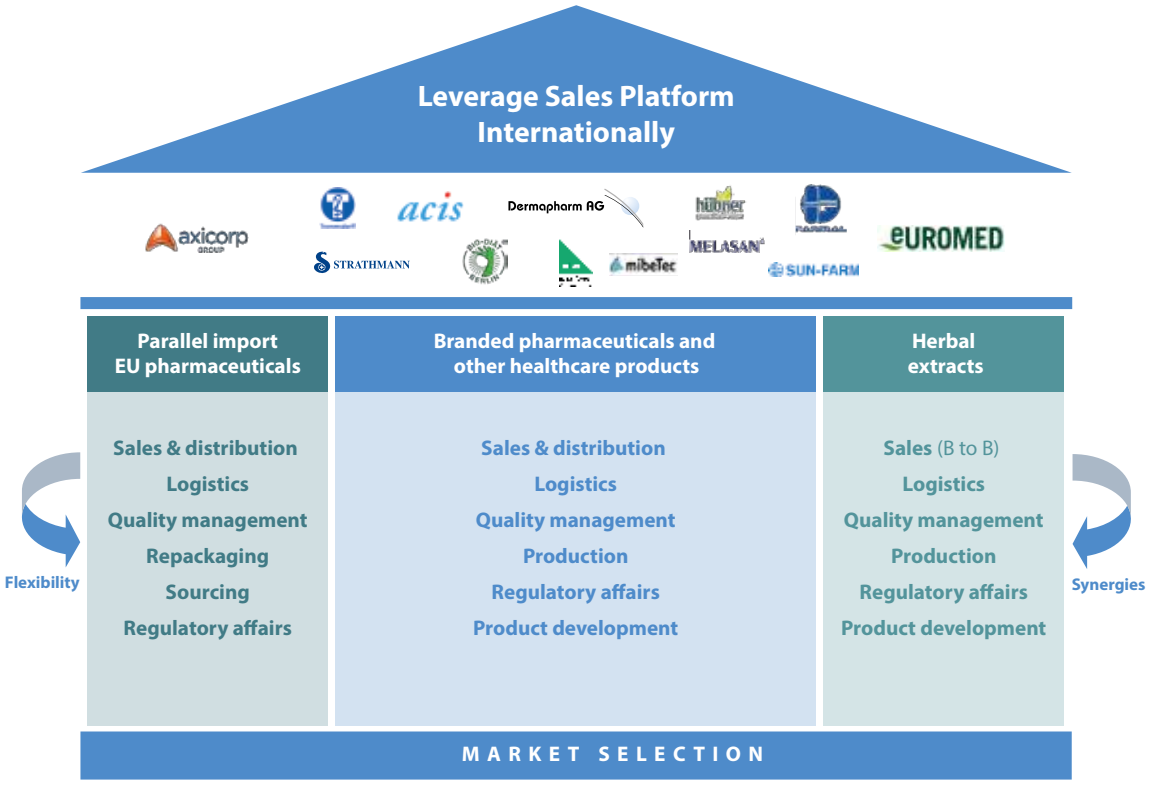
DERMAPHARM AT A GLANCE

Specialist for off-patent branded pharmaceuticals

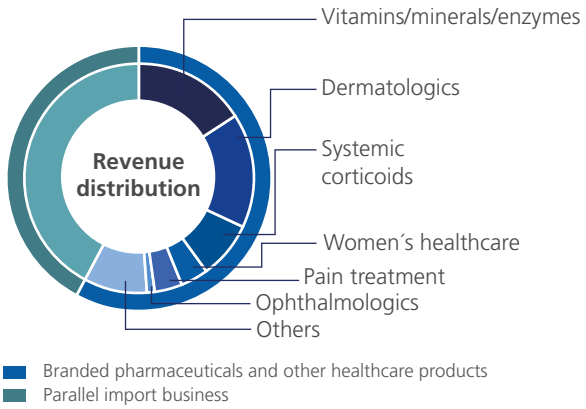
We are a leading manufacturer of off-patent branded pharmaceuticals for selected therapeutic areas, over-the-counter drugs and natural remedies as well as parallel import of originator compounds in Germany, with a growing international presence. Founded in 1991, Dermapharm is based in Grünwald near Munich and its main manufacturing facility is located in Brehna near Leipzig. Our proven expertise in formulations and product development enables us to develop, manufacture and market a wide range of brand-name pharmaceuticals that are no longer protected by patents.

Our portfolio currently comprises more than 900 marketing authorisations for more than 250 active pharmaceutical ingredients. Furthermore, we offer a growing portfolio of other healthcare products such as cosmetics, food supplements and dietary products and medical devices. This broad product range makes our Company unique.

One of our key strengths is the in-house development, in-house production and distribution of pharmaceuticals and other healthcare products for specifically targeted markets by our pharmaceutically trained sales force. Our "Made in Germany" quality seal and our "all under one roof" approach have helped us to achieve a strong track record for developing and marketing new pharmaceuticals and other healthcare products. Since 1 January 2012, we have received marketing authorisations for more than 250 pharmaceuticals developed by our team of highly-qualified and experienced professionals. These marketing authorisations also include authorisations for markets outside of Germany. Our comprehensive approach allows us to control the entire supply chain and thus limit any risks of inventory bottlenecks and production problems. This plays a key role in optimising margins at the same time by cutting production costs.



We also operate a parallel import business under the "axicorp" brand. We import pharmaceuticals from other EU Member States and resell them to pharmaceutical wholesalers and pharmacies in Germany. Based on revenue, Dermapharm was due to INSIGHT Health belongs to the top five of parallel importers in Germany in 2018. We leverage axicorp's excellent market access to pharmacies to directly market certain well-known and high-volume OTC products that need no further explanation.



Attractive product mix

Our ever-growing product portfolio, which includes well-known brands such as Dekristol®, Ampho Moronal® and Prednisolut®, primarily covers selected and specialised niche markets with high entry barriers and low levels of competition. We hold a significant market share in the overwhelming majority of these markets. Our attractive and diversified portfolio includes a mix of high-growth products and products with stable revenues. This portfolio covers the following therapeutic areas: vitamins/minerals/enzymes, systemic corticoids, dermatologics, women's healthcare, ophthalmologics, pain treatment and other healthcare products. Pain treatment was added as a new strategic therapeutic area following the acquisition and integration of two pharmaceutical manufacturers, Strathmann and Trommsdorff, in 2018. We have more than 250 active ingredients in varying strengths and dosage forms. This allows us to offer doctors and pharmacists different solutions for individual medical needs.

Our Group's home market is Germany, the largest pharmaceuticals market in Europe based on revenue in 2018. We also operate in Austria, Switzerland, Croatia, Poland and Ukraine. In addition, we have successfully implemented our corporate strategy and are now also present in the United Kingdom, Italy and Spain. During the current financial year we will work to market selected products from our existing product portfolio as well as new product developments in other European markets.

GEARED FOR GROWTH

Systematic growth strategy

Given our strong position in the German pharmaceuticals market, our focus is on successfully further expanding our business. We are looking to leverage both organic and external growth opportunities to become the leading European manufacturer of pharmaceuticals in select markets. To achieve this objective, we are pursuing a growth strategy based on three pillars: expanding the product portfolio by bringing to market new, internally developed products; increasing the Company's international presence; and successfully completing further acquisitions.

In-house product development

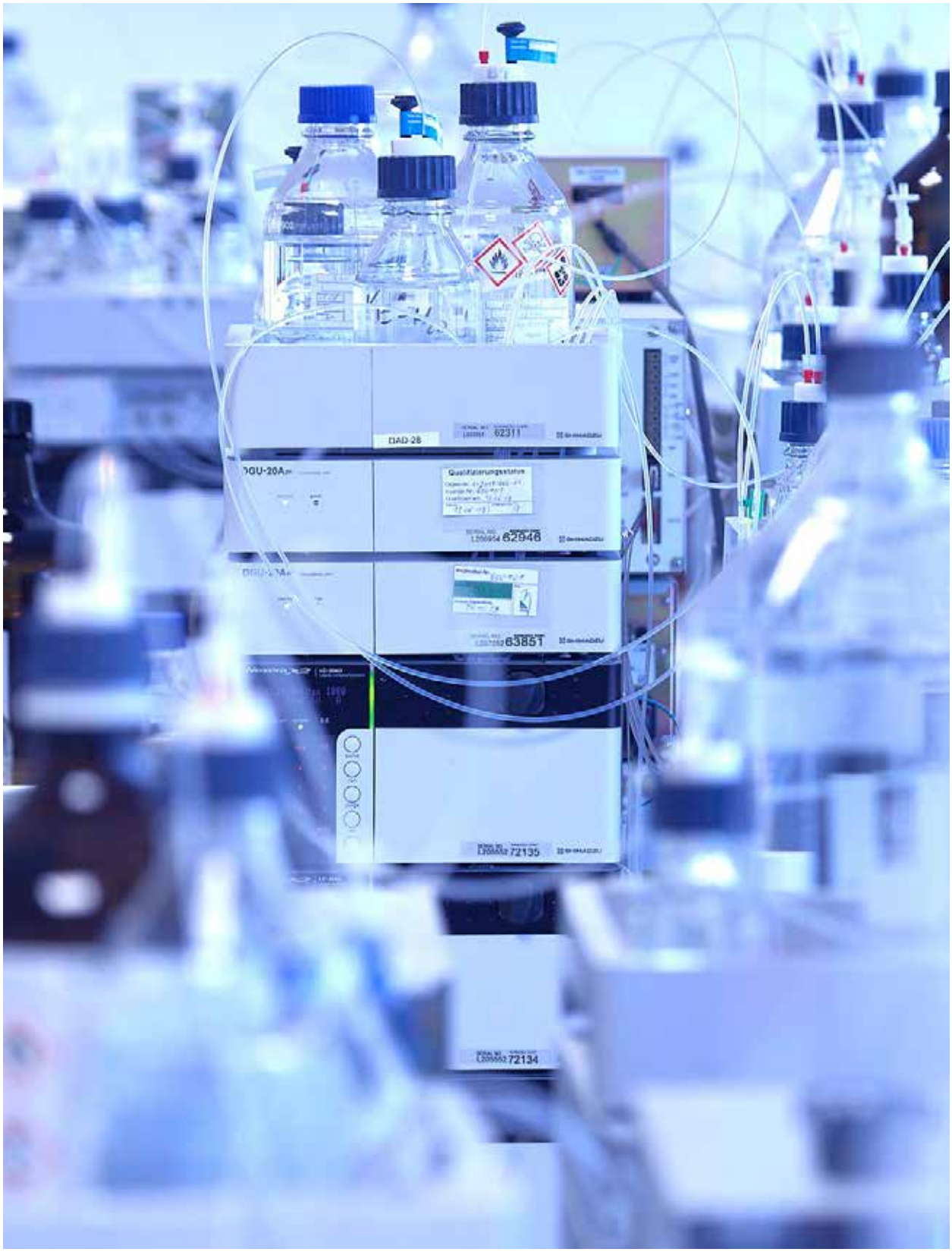
We are striving to develop and bring to market additional pharmaceuticals and healthcare products. We manufacture about 90% of the products ourselves. Once our specialists identify a potentially attractive pharmaceutical that fits with our portfolio, we can successfully complete all key production and authorisation processes in house – including designing and funding clinical trials. We rely in particular on the expertise of our own experts, some of whom have more than 25 years of experience in developing pharmaceuticals and other healthcare products.

Internationalisation

In line with our strategy, we are currently laying the foundation to market the bite away® and Herpotherm® hyperthermic medical devices in other western European countries as well as Asia and the Americas. In financial year 2017/2018, we formed subsidiaries in the United Kingdom and Italy and hired sales and distribution managers who are intimately familiar with their respective territories in order to further expand our business with branded pharmaceuticals and other healthcare products. Products such as "Solacutan®" and "Hydrocortisone tablets 10 mg", for which marketing authorisations were obtained, will be brought to market shortly. Furthermore, myriad compounds developed in-house are currently undergoing the approvals process, ensuring that we will gradually enlarge our portfolio as we expand into new countries. The establishment of corresponding sales and distribution structures goes hand in hand with the availability of further products.

M&A activities

Obtaining new authorisations and acquiring products and companies has always been part of Dermapharm's business strategy. Since the Company's formation in 1991, we have steadily expanded our product offering through successful acquisitions. This includes, for instance, the acquisition of attractive medical devices and pharmaceutical manufacturers, which complement Dermapharm's portfolio ideally. We continually review specific growth opportunities and continue to pursue strategic options that fit our corporate strategy.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SUCCESSFUL DIVERSIFICATION OF THE PRODUCT PORTFOLIO

Targeted expansion of the product portfolio

Dermapharm has a broad portfolio of high-margin products which have shown excellent performance such as Dekristol® 20 000 I.U., Solacutan®, VITA aktiv B12 and bite away®. In financial year 2018, we successfully implemented our corporate strategy and further expanded our product portfolio. Most notably, the products gained from the acquisitions of Strathmann and Trommsdorff, such as Myopridin®, Keltican® and Tromcardin®, are an ideal complement to our portfolio. The advantage for Dermapharm: steadily broadening our product portfolio allows us to further reduce our dependence on direct discount agreements with health insurers and significantly increase our share of products sold to self-payers in our selected niche markets. We also successfully rolled out the bite away® and Herpotherm® hyperthermic medical devices to the pharmacies market and secured sales and distribution partners throughout Europe for the devices. Our in-house product development activities also help to further diversify our product portfolio. In 2018, we launched a host of internal development projects in selected therapy fields. For instance, we successfully brought the dietary supplement Summavit® materna and the dermatological Verrucutan® to market.

bite away®, which reliably alleviates itching, pain and swelling caused by insect stings and bites, was heavily marketed and sold on the pharmacies market in 2018. Furthermore, Dermapharm secured sales and distribution partners for the device in many parts of Europe.

Tromcardin® complex is a product that optimally supports heart health. It contains a balanced combination of micronutrients, in particular potassium and magnesium. The dietary supplement is part of a balanced diet for managing heart disease, in particular cardiac arrhythmia.

Dermapharm markets the dermatological gel Solacutan®, a pharmaceutical used to treat keratinisation disorders (such as actinic keratosis). These are sequelae associated with excessive exposure to sunlight.

Dekristol® 20 000 I.U. is one of the strongest brands in Dermapharm's product portfolio and well-liked by self-payers. The prescription-only, high-dosage compound is used to treat vitamin D deficiency.

M&A activities drive gain in expertise

In order to achieve long-term success in selected niche markets, we attach great importance to honing our skills and expertise in growth markets. We do so by building on our in-house expertise and by targeting and pursuing M&A activities. In December 2018, we signed an agreement to acquire the Spanish company Euromed S.A.; the deal successfully closed at the start of 2019. Founded in 1971, Euromed S.A. is a leading manufacturer of plant extracts and plant-based ingredients for the pharmaceutical, food supplement and cosmetics industries. The production facilities in Mollet del Vallès (Barcelona) and Molina de Segura (Murcia) in Spain produce more than 5,000 tonnes of biomass every year. By acquiring Euromed, we not only expanded our own value chain but also our international presence and strengthened our know-how on the growth market for herbal pharmaceuticals. Furthermore, we will leverage the knowledge of the local industry to launch our own products on the Spanish market.

In March, we also acquired a stake in FYTA, a cannabis producer for pharmaceutical applications. This gives us access to the market for medical cannabis, which we believe will continue to gain in importance. In the future, we will distribute the medical cannabis produced by FYTA and intend to expand our product portfolio in this area in the long term. The investment is therefore an adequate addition to the new therapeutic area of pain treatment.

New therapeutic area: pain treatment

Dermapharm has expanded its portfolio of therapeutic areas to include the pain treatment therapeutic area and in the past year increased its market share in this field through the acquisitions of Strathmann and Trommsdorff. Dermapharm considers the therapeutic area pain treatment a future market with attractive growth opportunities. One product that we market in this field is Keltican® forte, a pharmaceutical used as part of a balanced diet to help people suffering from spinal afflictions, neuralgia and polyneuropathy. Keltican® forte, which contains uridine monophosphate, vitamin B12 and folic acid, helps the body repair damaged nerves. The successful launch of Myopridin®, a prescription muscle antispasmodic, via Strathmann represents another important milestone in the development of the therapeutic area pain treatment. In February 2019, Trommsdorff will leverage its large and effective sales force to bring Myditin®, a product with the identical active ingredient, to market. The product is marketed primarily to general practitioners, specialists, internists, orthopaedics and neurologists.

OFF-PATENT BRANDED PHARMACEUTICALS FOR SELECTED THERAPY FIELDS

Diverse product portfolio

Dermapharm's diversified product portfolio includes a mix of high-growth products and products with stable revenues. We are currently focused on the following selected therapeutic areas: vitamins/minerals/enzymes, systemic corticoids, dermatologics, women's healthcare, ophthalmologics and pain treatment. Our portfolio also includes other products covering additional therapeutic areas. We strive to steadily expand our product portfolio by introducing new, internally developed products and acquiring established pharmaceuticals that complement our existing portfolio.

Vitamins/minerals/enzymes

These products are used to treat a number of ailments from bone disease to nutritional deficiencies. These products include Dekristol® 20 000 I.U., a unique, high-dosage, prescription vitamin D compound. We also offer a wide range of OTC vitamin D products under the Dekristol® brand. Furthermore, we market vitamin D drops and various silica healthcare products under the "Hübner" brand. This includes sikapur®, a dietary supplement made from pure silicon in silica gel form that is used to strengthen skin, hair and nails. The launch of "VITA aktiv B12 Direktsticks", a galenic form of vitamin B12 with protein compounds, was a great success in 2017. VITA aktiv B12 helps increase energy and performance and combats fatigue.

Systemic corticoids

In the systemic corticoids product area we have the largest product portfolio of all vendors in Germany. These products help treat allergic reactions, skin disease and inflammation. All of these products are prescription pharmaceuticals. This includes Prednisolut®, which, depending on the dosage, is the standard therapy for treating a wide range of side effects, ranging from seasonal allergic reactions to anaphylactic shock and other acute symptoms. With this broad product offering we are the market leader for prescription pharmaceuticals in the German market for systemic corticoids.

Dermatologics

In this product area we market a wide range of products whose active ingredients are offered in some 590 different pharmaceuticals used to treat skin disease. Our longstanding expertise in the field of dermatology has made us the market leader – based on the number of prescriptions written by dermatologists – for prescription dermatologicals in Germany. The portfolio's familiar brands include Ampho Moronal®, a speciality pharmaceutical and one of the most sold prescription antifungal drugs used to treat mouth, throat and gastrointestinal diseases, and Solacutan®, which is applied to the skin, in particular to the scalp and face, of patients suffering from mild to moderate keratinization disorders. Verrucutan®, which is used to treat warts, was added to the portfolio in the previous year. Topical corticosteroids form the basis of the dermatological drugs. Dermapharm's product range includes virtually all important active

ingredients in this area. We will continue to expand our product range so that we can produce and offer all key corticosteroids that dermatologists require for their therapies.

Women's healthcare

In the women's healthcare product area we market a wide range of contraceptives and other women's healthcare products. One of the most successful prescription hormonal oral contraceptives used to prevent pregnancy and treat acne is Dienovel®. Furthermore, in 2018, we successfully launched Summavit® materna, a dietary supplement designed to meet the specific nutritional needs of expectant mothers and their babies. Summavit® materna contains an optimal combination of vitamins, minerals and omega-3 fatty acids.

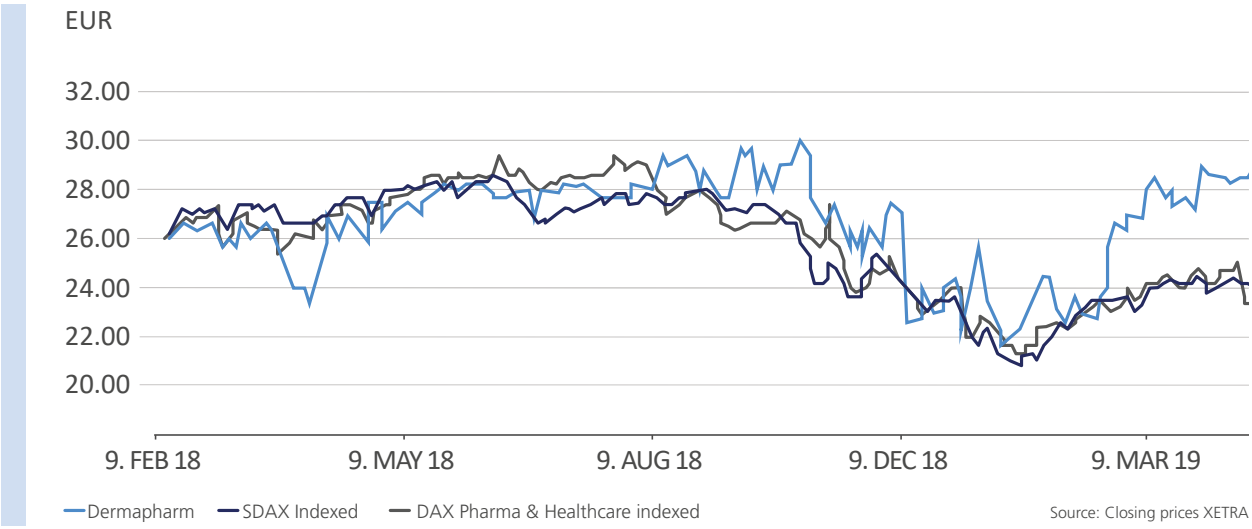
Ophthalmologics

The ophthalmologics product area consists of both prescription and OTC pharmaceuticals and medical devices used to treat various irritations and eye diseases. The product ranges includes Panthenol Augensalbe JENAPHARM®, an over-the-counter eye ointment. Other prescription antibiotic or corticosteroid eye ointments and drops form the basis of the ophthalmologics product range. This includes brands such as Prednifluid®, Dexafluid® and Oxytetracyclin-Augensalbe JENAPHARM®. In 2018, we launched easydrop®, a medical device used to treat dry eyes. These drops contain hyaluronic acid and in another form hyaluronic acid and dexpanthenol. With this, we expanded our self-payer business in the fast-growing market segment of therapeutics for dry eyes.

Other healthcare products

In addition to the aforementioned product areas, we also market a wide range of other pharmaceuticals and healthcare products. These include drugs used to treat bone loss and cardiovascular disease, and pharmaceuticals such as Simagel®, which is used to treat stomach ailments. We also market Temagin® pac, an OTC pain medication in tablet form that contains the same active ingredients and comes in the same dosage as the well-known branded painkiller Thomapyrin®. Our product range also includes local anaesthetics such as Xylocitin-Ioc or Procain JENAPHARM®, which have become established as standard drugs prescribed by doctors.

INFORMATION ABOUT THE DERMAPHARM SHARE



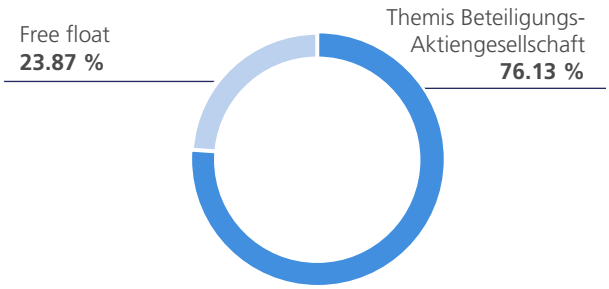
Share price performance

At the stock exchange listing on 9 February 2018, trading in the Company's shares opened at EUR 28.00 (XETRA). In light of the turbulent market conditions, the shares closed the first trading day at EUR 26.00, down approximately 7 % on the issue price. Over the course of the 2018 financial year, the share price peaked at EUR 30.45 on 4 October 2018. The price of Dermapharm shares dropped to its lowest level around two months later on 20 December 2018, trading at EUR 21.58. The shares closed at EUR 22.70 on 28 December 2018. Since then, the share price has trended upwards, closing at EUR 28.20 on 29 March 2019. Since the IPO, the share has therefore recorded a slight increase in price. The SDAX did not perform as well by comparison. It lost 5.8 % of its value between 9 February 2018 and 29 March 2019. During the same period, the DAXsector All Pharma & Healthcare Index performed similarly to the SDAX, decreasing 8.8 %.

The shares at a glance (XETRA, intraday auction)	
High (4 October 2018)	EUR 30.45
Low (20 December 2018)	EUR 21.58
Closing price (29 March 2019)	EUR 28.20
Trading volume (9 February 2018 to 29 March 2019; average number of shares)	29,713 shares

General information	
German Securities Code (WKN)	A2GS5D
ISIN	DE000A2GS5D8
Ticker symbol	DMP
Type of shares	No-par value ordinary bearer shares
Initial listing	9 February 2018
Number of shares	53.84 million
Stock exchanges	Regulated Market (Prime Standard) of the Frankfurt Stock Exchange
Designated Sponsors	Berenberg ODDO BHF

The majority (76.13 %) of the no-par value shares are held by Themis Beteiligungs-Aktiengesellschaft. 23.87 % of the shares in Dermapharm Holding SE are in free float as defined by Deutsche Börse. With the exception of treasury shares, this includes all holdings below 5 %.



Information based on voting rights notifications received pursuant to German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") as at 13 February 2018/unchanged, with the exercised Greenshoe option having been factored in

IR activities

By selecting the Prime Standard, Dermapharm Holding SE deliberately opted for Deutsche Börse's most strictly regulated segment when it went public last year. We strive to communicate transparently with all capital market participants. This includes providing our investors with the latest information by regularly publishing financial reports in both German and English as well as any Company-related disclosures in a timely manner. In addition to our legal obligations, we aim to expand on our IR activities by participating in investor conferences and one-on-one meetings.

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

Annual General Meeting

On 26 June 2018, Dermapharm Holding SE held its inaugural Annual General Meeting at the Westin Grand Hotel in Munich following the initial public offering in the spring of 2018. 87.76% of the share capital was in attendance. All agenda items were adopted. At the Annual General Meeting, the Management Board reported on Dermapharm Holding SE's operational and strategic development in financial year 2017 and in the first quarter of 2018. Financial year 2017 was shaped primarily by the preparations for the successful IPO on the Prime Standard of the Frankfurt Stock Exchange in February 2018 and the acquisitions of several companies in line with the strategy to expand and optimise the product portfolio. In 2017, Dermapharm built on its successes of recent years by recording significant revenue and earnings growth. Accordingly, the Annual General Meeting ratified the actions of the Management Board and of the Supervisory Board for financial year 2017 by a large majority. Furthermore, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was elected as the auditor for financial year 2018.

Financial calendar

Publication of Quarterly Release (Q1)	21 May 2019
Annual General Meeting	4 June 2019
Publication of 2019 Half-Yearly Financial Report	12 September 2019
Publication of Quarterly Release (Q3)	20 November 2019

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT ON THE SITUATION OF THE COMPANY AND OF THE GROUP FOR FINANCIAL YEAR 2018

1. Information about the Group

1.1 Business model and strategy

Business model

Dermapharm Holding SE (together with its consolidated subsidiaries referred to as "Dermapharm" or the "Group") is a leading manufacturer of off-patent branded pharmaceuticals for selected therapeutic areas, over-the-counter drugs, natural remedies, medicinal products as well as parallel import of originator compounds in Germany, with a growing international presence. The Company focuses currently on the two divisions "Branded pharmaceuticals and other healthcare products" and the "Parallel import business".

Branded pharmaceuticals and other healthcare products

Dermapharm uses its expertise in terms of formulations and developments to develop, manufacture and market a wide range of branded pharmaceuticals for specific, selected niche markets that are no longer protected by patents. Dermapharm currently holds more than 900 marketing authorisations for more than 250 active pharmaceutical ingredients. Furthermore, Dermapharm offers a growing portfolio of other healthcare products such as cosmetics, food supplements and dietary and medicinal products. The Group's product portfolio therefore covers a broad spectrum of groups of active ingredients in varying strengths and dosage forms. This allows the Company to offer doctors and pharmacists different solutions for individual medical needs. According to the market research firm INSIGHT Health, Dermapharm is the market leader in prescription vitamins, for instance with the vitamin D compound Dekristol® 20 000 I.U. INSIGHT Health also names Dermapharm the market leader for prescription dermatologicals in Germany, based on the number of prescriptions written by the doctors registered there, and for systemic corticosteroids. Well-known brands like Ampho Moronal® and Prednisolut® are among Dermapharm's prescription dermatological products and systemic corticosteroids.

Parallel import business

Dermapharm also operates a Parallel import business under the "axicorp" brand. The Company uses its skills in direct marketing in Germany by importing pharmaceuticals from other EEA member states for resale to pharmaceutical wholesalers and pharmacies in Germany. In doing so, the Company benefits from the statutory requirement that at least 5 % of all prescription pharmaceuticals sold under the health insurance system in Germany must be imported from other EEA member states. At the same time, these pharmaceuticals must be sold for at least EUR 15.00 or 15 % less than the German originator, which is intended to contribute to lowering healthcare costs. Dermapharm covers the majority of the prescription branded pharmaceuticals available on the German parallel import market and has grown to become Germany's fourth largest parallel importer measured by gross revenues in 2018 according to INSIGHT Health.

Strategy

Dermapharm plans to further expand its operations building upon its strong position in the German pharmaceutical and parallel import market. Dermapharm aims to consistently leverage both organic and external growth opportunities to become the leading European manufacturer of pharmaceuticals in selected markets. In financial year 2018, Dermapharm achieved further progress in this regard by acquiring Strathmann and Trommsdorff and successfully launching new products on the market.

To continue to grow profitably, Dermapharm's strategy is based on three pillars: expanding the product portfolio by bringing to market new, internally developed products; increasing the Company's international presence; and successfully completing further acquisitions of products and businesses.

In order to expand the range of the product portfolio, Dermapharm continually strives to develop additional branded pharmaceuticals and healthcare products and launch them on the market. Dermapharm's product pipeline currently comprises approx. 50 ongoing development projects involving new products for the selected niche markets. This pipeline includes 39 branded pharmaceuticals and other healthcare products – dermatologics, vitamins/minerals/enzymes, women's healthcare products and opthalmologics – which are anticipated to be marketable by 2024. Moreover, we will continue to

develop the technology of hyperthermic medicinal devices and to further step up the development of a new hyperthermic medicinal devices against pruritus. Dermapharm plans to utilise the Company's existing development, manufacturing and marketing capacities to introduce new products and to market the products through the established distribution organisation.

With regard to its international presence, Dermapharm plans to market selected products from its existing product portfolio as well as new product developments in the United Kingdom, Italy and Spain. In order to support these expansion efforts, Dermapharm has obtained marketing authorisations for some of its existing and newly developed pharmaceuticals in these markets. When introducing new products, Dermapharm plans to utilise a combined authorisation process for several countries in order to obtain marketing authorisations for several target markets more quickly and cost effectively. Dermapharm therefore established two additional subsidiaries, mibe pharmaceuticals UK Ltd. (27 October 2017) in the United Kingdom and mibe pharmaceuticals Italia Srl. (12 February 2018) in Italy, and also hired distribution managers with local expertise.

Obtaining new authorisations and acquiring products and companies has always been part of Dermapharm's business strategy. Since the Company's formation in 1991, Dermapharm has steadily expanded its product offering through successful acquisitions. The acquisition of the dermatology division of Bristol-Meyer Squibb in 2002 and the takeover of the therapeutics division of Jenapharm in 2004 have made it possible for Dermapharm to enter new fields of therapy. Dermapharm succeeded in acquiring the medicinal products bite away® and Herpotherm® in September 2017. In 2018, this was followed by the acquisition of the companies Strathmann and Trommsdorff with a specialised range of prescription pharmaceuticals and OTC products.

1.2 Group Structure and Interests

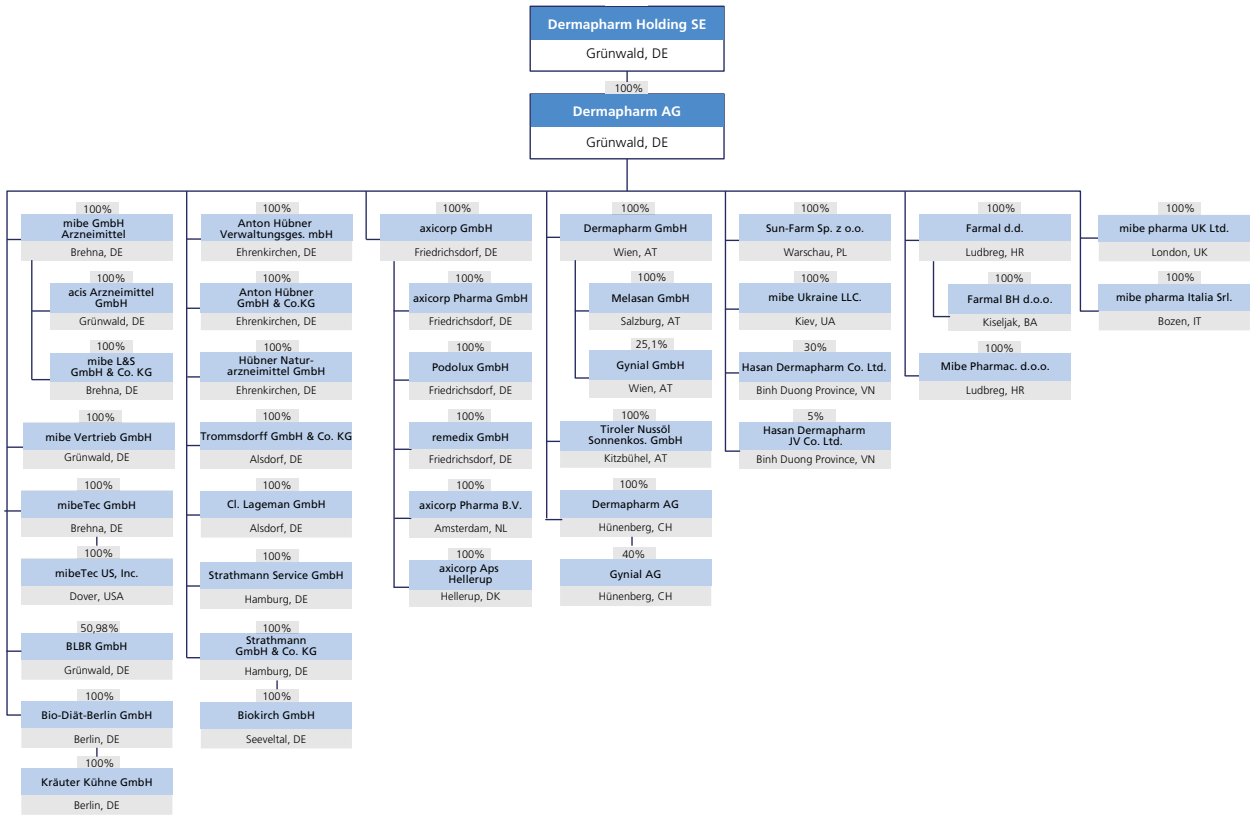
The Company is organised as a European company (Societas Europaea (SE)) according to European law and thus is subject to the European legislation on these types of companies, particularly the Council Regulation on the Statute for a European Company (SE Regulation). As a company registered in Germany,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

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

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

As at the reporting date of 31 December 2018, the Dermapharm Group comprises 39 companies of which 22 are domiciled in Germany.

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



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

1.3 Sites and employees

The Dermapharm Group maintains production and distribution sites in Germany, which is also its largest sales market, as well as in Austria, Switzerland, the Netherlands, Italy, the United Kingdom, Croatia, Bosnia and Herzegovina, Poland and the Ukraine.

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

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

In Germany, five different sales force lines visit pharmacies, registered doctors and clinics to promote and distribute all branded pharmaceuticals and healthcare products. Depending on the areas of product application, these efforts are conducted very specifically according to the important customer target groups. Parallel imported branded compounds are also distributed through direct sales by telephone.

Qualified employees are the basis for Dermapharm's long-term commercial success. In financial year 2018, an average of 1,619 employees worked for Dermapharm (previous year: 1,240 employees).

1.4 Management system and performance indicators

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

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

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

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

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

	Profit or loss for the period, after profit/loss transfers
+	Profit or loss transferred in accordance with profit or loss transfer agreements
=	Profit or loss for the period
+	Income tax expenses
=	Earnings before taxes (EBT)
+	Finance costs
-	Financial income
+	Depreciation, amortisation and write-downs
=	**EBITDA**

1.5 Research and Development

Due to its business model, Dermapharm deliberately chooses not to conduct fundamental pharmaceutical research. The focus is on the development of compounds using active pharmaceutical ingredients which are generally no longer subject to industrial property rights.

The foundation for profitable growth and the long-term success of the Company lies in continuously bringing to market new branded pharmaceuticals that enhance market competence in the core therapeutic areas and offering them at the best possible cost. The Group's in-house central development centre in Brehna plays a crucial role in this, supported by contract development projects and one cooperation with external development partners.

Dermapharm continuously analyses the target markets served by its range of products. After identifying a potentially attractive pharmaceutical product, Dermapharm is able to carry out the key phases of the development and authorisation process itself, including the product development and sponsoring of clinical trials. Dermapharm is confident that its own expertise in product development is a key factor for the Group's success. This enables Dermapharm to retain control over the timing and costs of product development and allows it to devote itself to developing special projects, including niche products. Furthermore, Dermapharm has the necessary regulatory expertise in house in order to be able to carry out the authorisation process itself. In doing so, it has access to the proven expertise of its development specialists, some of whom have over 25 years of experience in developing off-patent pharmaceuticals.

When possible, Group companies will market newly developed products internationally. The companies thus make use of national, but also supranational, mostly EU-wide approval procedures.

2. Report on economic position

2.1 Macroeconomic and sector-specific environment

Macroeconomic environment

The rate of growth in the euro nations slowed in 2018, and the eurozone grew by only 2.0 % as a result. Eurozone growth is expected to continue to slow to 1.3 % in 2019. The IMF reported that the growth rates of key economies in the eurozone – Germany, France, Italy and Spain, in particular – fell accordingly in 2018. International trade disputes and problems in the automotive industry lead to slower growth in Germany. The IMF projects growth to reach 1.3 % in 2019.

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

Sector-specific environment

The pharmaceuticals and healthcare market is driven by key trends. These include demographic trends such as an increasingly ageing society, global population growth, rising health awareness and self-medication as well as advances in the medical field. Accordingly, the European pharmaceuticals market has grown continuously in recent years. According to information from the consultancy firm IQVIA (source: IMSVALOTC), the entire European pharmaceuticals market generated annual revenue of USD 249.0 billion by the end of the third quarter of 2018, corresponding to an increase of 11.6 % compared to the same period in the previous year (MAT Q3 2017: USD 223.2 billion). Of that amount, USD 220.6 billion (MAT Q3 2017: USD 197.3 billion) was attributable to prescription pharmaceuticals and USD 28.4 billion (MAT Q3 2017: USD 25.7 billion) to OTC pharmaceuticals.

Dermapharm's primary market, Germany, has a highly developed healthcare system with 152,000 registered physicians, 19,748 public pharmacies and 1,948 hospitals in 2017. Because of this, Germany spends a larger share of its gross domestic product for healthcare than any other country in the European Union, and it has the second-highest per capita healthcare spending and the highest share of health spending covered by public funds in the European Union. IQVIA reports that revenue in the German pharmaceuticals market increased by 6 % to EUR 43.9 billion in 2018 (2017: EUR 41.5 billion). Accordingly, a total of 98 billion units, i.e. tablets, sachets and injections, were sold to patients in pharmacies and hospitals, corresponding to a 1 % increase year on year (2017: 97 billion units). Viewed over the last three years, revenues in the German pharmaceuticals market thus increased by 20 % from EUR 36.7 billion in financial year 2016 to EUR 43.9 billion in 2018 (basis: manufacturer selling price).

Revenue from off-patent pharmaceuticals without discounts from discount agreements increased by 7.2 % in Germany from EUR 7.1 billion to EUR 8.7 billion in 2018 (basis: manufacturer selling price). However, volume gains are often neutralised due to government intervention in pricing. As a result, a continued downward trend in prices, state-imposed mandatory discounts and steep discounts to health insurance organisations as a result of statutory discount agreement options between manufacturers and health insurance organisations continue to characterise this market.

Both the market for off-patent pharmaceuticals as well as the OTC market worldwide were marked by a high degree of consolidation in 2018. This primarily took the form of acquisitions and equity investments. In addition, several companies also exchanged or combined divisions in order to place greater focus on their core skills and to reinforce the relevant business lines. The continuous expiration of patent rights is among the drivers of growth in this sector. In addition, the markets for off-patent pharmaceuticals have not yet been fully penetrated and are expected to continue to grow against the backdrop of budgetary constraints stemming from the public debt crisis in the eurozone.

The framework agreement covering the supply of pharmaceuticals stipulates an import quota of 5 % in accordance with § 129 (2) of the German Social Security Code, Book V (Sozialgesetzbuch, Fünftes Buch, SGB V). This requires that pharmacists must generate at least 5 % of revenue from prescription pharmaceuticals sold under the healthcare system in Germany with pharmaceuticals imported from other EEA member states. According to INSIGHT Health, in financial year 2018, revenue in the parallel import market amounted to EUR 2.9 billion compared to EUR 2.8 billion in the previous year (basis: manufacturer selling prices). At 8.7 % of pharmacy sales in 2018, this revenue far surpassed the mandatory quota of 5 %, as in past years.

Regulatory environment

Reference pricing for pharmaceuticals

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

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

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

Manufacturer discount

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

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

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

Price moratorium

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

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

Supplementary charge

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

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

Discount agreements with statutory and private health insurance providers

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

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

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

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

International pharmaceuticals markets

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

2.2 Course of business

In financial year 2018, Dermapharm achieved its targets.

The following aspects were instrumental to that success:

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

Acquisitions

Acquisition of the Strathmann Group

On 20 December 2017 the Group entered into a purchase agreement with the seller Dr. Detlef Strathmann Verwaltungs GmbH & Co. KG to acquire the shares and limited partners' interests in Strathmann Service GmbH in Hamburg, Strathmann GmbH & Co. KG in Hamburg, and Biokirch GmbH in Seevetal. The transfer of the shares and limited partners' interests was subject to conditions precedent, which were satisfied in early 2018. The acquisition of the companies essentially provided Dermapharm with access to further OTC and prescription pharmaceutical compounds, along with approvals and brands, as well as access to various customers. In addition, the companies own land and buildings. The Strathmann Group was included in the group of consolidated companies for the first time on 1 January 2018.

Acquisition of the Trommsdorff Group

On 23 January 2018, Dermapharm acquired all the shares in Trommsdorff GmbH & Co. KG and its sole general partner, Cl. Lageman Gesellschaft mit beschränkter Haftung (jointly referred to as "Trommsdorff"). Trommsdorff produces and distributes 23 different prescription pharmaceuticals and OTC products, specifically Keltican® forte, a dietary product used to treat back pain and Tromcardin® complex, which combines certain minerals and vitamins to treat cardiac arrhythmia. Trommsdorff also serves its former parent group as a toll manufacturer. The Trommsdorff Group was included in the group of consolidated companies for the first time on 1 February 2018.

Acquisition of BLBR GmbH

On 23 March 2018, Dermapharm AG acquired 51 % of the shares in BLBR GmbH. The object of the company is the development, manufacture, sale, marketing and brokerage of products and services on the secondary healthcare market. This includes non-pharmacy-only drugs, food supplements, body care products, cosmetics and technical medical devices, provided these do not require governmental approval. BLBR GmbH was included in the group of consolidated companies for the first time on 1 April 2018.

Comparison to outlook in 2017

In the report on expected developments in the 2017 annual report, the Management Board forecasted positive overall business performance for financial year 2018. Consolidated revenue is expected to be up year on year by 20 % to 25 %, and EBITDA is expected to increase by 22 % to 27 % over the figure for financial year 2017. These forecasted growth rates were based on organic growth along with the introduction of compounds developed in-house and the new acquisitions included in the forecast.

The Group's performance in financial year 2018 largely reflects this forecast.

The financial performance indicators for the Dermapharm Group developed as follows in financial year 2018:

Financial performance indicators (EUR million)	2018	2017	+/-%
Consolidated revenue	572.4	467.1	22.5 %
Branded pharmaceuticals and other healthcare products	334.7	224.1	49.4 %
Parallel import business	237.8	243.0	(2.1 %)
Adjusted EBITDA*	143.4	112.9	27.0 %
Adjusted EBITDA margin*	25.1 %	24.2 %	-
Unadjusted EBITDA	139.6	110.2	26.7 %
Branded pharmaceuticals and other healthcare products	132.8	104.6	27.0 %
Parallel import business	9.0	7.1	26.8 %
Unadjusted EBITDA margin	24.4 %	23.6 %	-
Branded pharmaceuticals and other healthcare products	39.7 %	46.4 %	-
Parallel import business	3.8 %	2.9 %	-

* 2018 EBITDA adjusted for non-recurring costs in connection with the preparations for the IPO and the acquisitions of Strathmann and Trommsdorff amounting to EUR 3.8 million.

* 2017 EBITDA adjusted for non-recurring costs in connection with the preparations for the IPO amounting to EUR 2.7 million.

Trommsdorff GmbH & Co. KG was consolidated for the first time on 1 February 2018, the date on which Dermapharm obtained control of the company. Accordingly, the company's contributions to revenue and earnings were not included in the consolidated net profit until February 2018.

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

2.3 Financial position, financial performance and cash flows

2.3.1. Financial performance of the Group

Income statement

EUR thousand	2018	2017
Revenue	572.424	467.117
Change in inventories	4.264	180
Own work capitalised	10.200	10.487
Other operating income	7.767	6.752
Cost of materials	(287.124)	(256.311)
Personnel expenses	(92.257)	(64.124)
Depreciation and amortisation	(30.327)	(16.487)
Other operating expenses	(77.438)	(55.498)
Operating result	**107.509**	**92.116**
Share of profit/loss of companies accounted for using the equity method, after tax	1.796	1.641
Financial income	3.949	8.392
Finance costs	(9.018)	(14.119)
Financial result	**(3.272)**	**(4.086)**
Earnings before taxes	**104.237**	**88.030**
Income tax expenses	(29.011)	(10.286)
Profit or loss for the period	**75.226**	**77.744**
Profit transferred or loss absorbed in accordance with profit or loss transfer agreements	-	(57.136)
Profit or loss for the period, after profit or loss transfers	**75.226**	**20.608**

Sales and earnings performance of the Group

Dermapharm once again increased **revenue**. Consolidated revenue reported in financial year 2018 increased by 22.5 % compared to the previous year to EUR 572.4 million (previous year: EUR 467.1 million).

The increase was primarily the result of a successful strategy focused on selected niche markets mostly independent of so-called blockbuster products, i.e. individual products accounting for a disproportional share of revenue. Growth was driven primarily by compounds unrelated to those at the centre of ingredient-related discount agreements with health insurance organisations or those characterised by unique features. Furthermore the share of revenue generated by high margin products paid by the consumers themselves could be further increased. The share of prescription products is also increasing in this area.

As in previous years, various development projects were recognised by the German Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte, BfArM) or the corresponding international authorities in financial year 2018, and the products were successfully brought to market. As a result, Dermapharm successfully introduced further new compounds in various indication groups, and expanded the range by adding individual dosage forms.

In addition, the acquisitions of Strathmann and Trommsdorff which were completed at the beginning of the year were included in the Dermapharm Group's basis of consolidation for the first time in the period under review. Strathmann was already initially consolidated as at 1 January 2018. Trommsdorff was consolidated for the first time on 1 February 2018, the date on which Dermapharm obtained control of the company. Accordingly, the company's contributions to revenue and earnings were not included in the consolidated net profit until February 2018.

Development costs recognised under **own work capitalised** amounted to EUR 10.2 million in financial year 2018 (previous year: EUR 10.5 million). The ratio of development costs to revenue amounted to 1.8 % (previous year: 2.2 %).

Development expenses of EUR 10.4 million (previous year: EUR 10.6 million) were capitalised for new products in financial year 2018. This represents a capitalisation ratio of 100 % (previous year: 100 %). In financial year 2018, EUR 4.9 million (previous year: EUR 0.3 million) of capitalised development costs were written down.

The product development department employed an average of 79 employees in financial year 2018 (previous year: 66 employees).

Other operating income amounted to EUR 7.8 million in financial year 2018 (previous year: EUR 6.8 million) and was significantly impacted by exchange rate effects, damage payments and the reversal of investment grants.

The increase in revenue in the reporting year resulted in a higher **cost of materials** in absolute terms of EUR 287.1 million in financial year 2018 (previous year: EUR 256.3 million). Compared to the higher revenue, the cost of materials saw a disproportionately low increase. The main reasons for this were better purchasing terms, a further shift of products to in-house manufacturing and the utilisation of intra-Group synergies. Accordingly, the cost of materials ratio (including changes in inventories) improved to 49.4 % (previous year: 54.8 %).

Personnel expenses amounted to EUR 92.3 million in financial year 2018 (previous year: EUR 64.1 million). The increase is due primarily to the first-time inclusion of the personnel expenses of the acquisitions of Strathmann and Trommsdorff. It was also attributable to the higher administrative requirements associated with the IPO and positive business performance. The ratio of personnel expenses to revenue stood at 16.1 % (previous year: 13.7 %).

Depreciation and amortisation amounted to EUR 30.3 million in financial year 2018 (previous year: EUR 16.5 million). The increase is attributable primarily to depreciation and amortisation on assets from the purchase price allocation (PPA depreciation) in connection with the acquisitions of Strathmann and Trommsdorff, as well as their first-time inclusion in the group of consolidated companies. Furthermore, EUR 4.9 million (previous year: EUR 0.3 million) of capitalised development costs were written down.

Other operating expenses amounted to EUR 77.4 million in financial year 2018 (previous year: EUR 55.5 million). The increase is due primarily to the first-time inclusion of the newly acquired companies Strathmann and Trommsdorff in the group of consolidated companies. Non-recurring consulting fees of EUR 2.4 million were incurred in connection with these acquiring these two companies. In addition, there was also an increase in the legal and consulting fees necessary during the preparatory and transitional measures related to the IPO and the subsequent stock market listing. In connection with this, non-recurring costs amounting to EUR 1.4 million were incurred. Expenses in the area of development also increased because of variations in the amounts of expenses incurred according to which phase the individual phases were in. These development costs are neutralised through the item own work capitalised. The ratio of other operating expenses to revenue stood at 13.5 % (previous year: 11.9 %).

Adjusted for non-recurring costs in connection with the preparations for the IPO and the acquisitions of Strathmann and Trommsdorff amounting to EUR 3.8 million, **EBITDA** amounted

to EUR 143.4 million (previous year: EUR 112.9 million) in financial year 2018. Accordingly, Dermapharm lifted its **EBITDA margin** to 25.1 % (previous year: 24.2 %).

Unadjusted EBITDA amounted to EUR 139.6 million in financial year 2018 (previous year: EUR 110.2 million). Accordingly, Dermapharm lifted its EBITDA margin to 24.4 % (previous year: 23.6 %).

EBITDA can be reconciled to Group earnings as follows:

EUR thousand	2018	2017
EBITDA	**139.632**	**110,244**
of which share of profit/ loss of companies accounted for using the equity method, after tax	*1,796*	*1,641*
Depreciation and amortisation	(30,327)	(16,487)
Financial income	3,949	8,392
Finance costs	(9,018)	(14,119)
Earnings before taxes (EBT)	**104.237**	**88,030**
Income tax expenses	(29,011)	(10,286)
Profit or loss for the period	**75,226**	**77,744**
Profit transferred or loss absorbed in accordance with profit or loss transfer agreements	-	(57,136)
Profit or loss for the period, after profit or loss transfers	**75,226**	**20,608**

Financial income fell to EUR 3.9 million in financial year 2018 (previous year: EUR 8.4 million). This decrease was due primarily to a receivable from Themis Beteiligungs-AG in connection with two cross-currency swaps entered into by Dermapharm AG. The cross-currency swaps are described in greater detail under the financial expenses section below.

At the same time, **financial expenses** decreased to EUR 9.0 million in financial year 2018 (previous year: EUR 14.1 million). Compared to the previous year, interest expenses for financial liabilities were generally reduced to EUR 4.2 million in 2018 (previous year: EUR 4.6 million) as a result of the low interest rate level, the repayment of participation rights II. of Dermapharm AG in January 2018 and the restructuring of the promissory note loans I. + II. in the previous year.

Two cross-currency swaps which Dermapharm AG had already entered into with UniCredit Bank AG in 2010 had a negative impact on financial expenses (EUR 1.8 million; previous year: EUR 6.2 million). One of these matured in April 2018, and the second will mature in April 2020. The Swiss franc is the reference currency for these swaps. Due to the EUR/CHF exchange rate in 2014 and the floor of 1.20 set for the EUR/CHF exchange rate by the Swiss National Bank (SNB) in September 2011, the maximum exchange rate risk amounted to EUR 1.4 million per year. The SNB reversed this minimum exchange rate on 16 January 2015, so that higher annual interest expenses could also be possible.

Dermapharm AG already filed a lawsuit against UniCredit with the regional court of Munich in December 2011. Dermapharm calls for the rescission of these cross-currency swaps in addition to claiming compensation for all damages in connection with these swaps. Dermapharm takes the view that UniCredit acted in breach of its duty to properly advise Dermapharm concerning the risks associated with these transactions. At 31 December 2018, the negative fair value of the swaps with UniCredit (i.e. the amount of Dermapharm's future payment obligations assumed as at this date) amounted to EUR 2.6 million (previous year: EUR 3.9 million) and was reported under other financial liabilities in the consolidated statement of financial position. The action was dismissed in the first two instances on 6 July 2016. Dermapharm has filed an appeal against the denial of leave to appeal with the German Federal Supreme Court and currently assumes that this court will take a decision on this appeal in the second quarter of the financial year ending on 31 December 2019.

Dermapharm AG and Themis Beteiligungs-AG entered into an indemnity agreement on 21 December 2015 under which Dermapharm cedes its claims against UniCredit to Themis Beteiligungs-AG. In return, Themis Beteiligungs-AG agreed in 2015 to assume payments under the cross-currency swap from Dermapharm to UniCredit along with legal fees in connection with the courts unless covered under a provision recognised by Dermapharm AG. All claims levelled by UniCredit against Dermapharm AG in financial year 2018 will be passed on to Themis Beteiligungs-AG. Accordingly, we expect there will be no charges in connection with these contracts.

Earnings before taxes (EBT) amounted to EUR 104.2 million in financial year 2018 (previous year: EUR 88.0 million). However, the EBT margin decreased somewhat and amounted to 18.2 % (previous year: 18.8 %).

Income tax expenses increased to EUR 29.0 million in the 2018 reporting period (previous year: EUR 10.3 million). In light of the termination of the profit and loss transfer agreement between Themis Beteiligungs-AG and Dermapharm AG on 31 December 2017, the consolidated tax group also ceased to apply to Themis Beteiligungs-AG from that date. Since 1 January 2018, current income taxes for the companies

included in the consolidated tax group are recognised by Dermapharm AG. By definition, this results in a higher tax burden in the Dermapharm Group.

Unadjusted profit for the period amounted to EUR 75.2 million in financial year 2018 (previous year: EUR 77.7 million).

Segment reporting

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

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

Any transactions entered into for the provision of goods and services within the divisions are shown as consolidated. The exchange of goods and/or services between the divisions took place at arm's-length prices.

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

Overview of segment reporting by division

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

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

2017 EUR thousand	Branded pharmaceuticals and other healthcare products	Parallel import business	Reconciliation/ Group holding company	Group
Revenue	225,616	242,988	-	468,604
of which intra-division revenue	*1,487*	-	-	*1,487*
Revenue from external customers	224,129	242,988	-	467,117
Revenue growth	7 %	3 %	-	5 %
EBITDA	104,561	7,085	(1,402)	110,244
of which earnings from investments accounted for in accordance with the equity method	*1,641*	-	-	*1,641*
EBITDA margin	47 %	3 %	-	24 %

Revenues and earnings performance in the Branded pharmaceuticals and other healthcare products division

Revenue in the Branded pharmaceuticals and other healthcare products division reported in financial year 2018 increased by 49.4 % compared to the previous year to EUR 334.7 million (previous year: EUR 224.1 million).

The increase was attributable primarily to maintaining the strategic focus on selected niche markets, while remaining independent of blockbuster products. Growth was driven primarily by compounds unrelated to those at the centre of ingredient-related discount agreements or those characterised by unique features. Dermapharm's German companies were nonetheless able to renew a selected number of strategically important discount agreements with well-known statutory health insurance organisations or enter into new agreements. Generally speaking, however, measures were taken to further reduce dependency on low-margin discount agreements with health insurance organisations with a balanced product portfolio. Furthermore, the share of revenue generated by high margin products paid by the consumers themselves was further increased. The share of prescription products is also increasing in this area. Revenue increased further year on year for selected compounds, allowing stronger earnings to be generated.

As in previous years, various development projects were recognised by the German Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte, BfArM) or the corresponding international authorities in 2018, and the products were successfully brought to market.

The acquisitions of Strathmann and Trommsdorff which were completed at the beginning of the year and allocated to this division, Branded pharmaceuticals and other healthcare products, were included in the Group's basis of consolidation for the first time in the period under review. Strathmann was already initially consolidated as at 1 January 2018. Trommsdorff was consolidated for the first time on 1 February 2018. Accordingly, the company's contributions to revenue and earnings were not included in the consolidated net profit until February 2018.

EBITDA reported in financial year 2018 rose by 27.0 % to EUR 132.8 million (previous year: EUR 104.6 million). This increase is based primarily on the development of gross income (+ 4.9 %), attributable to steady growth in revenue while lowering expenses for government discounts, discounts from direct agreements with health insurance organisations and the costs of material. At 39.7 % (previous year: 46.4 %), the EBITDA margin of the division was below the level of the previous year.

Sales and earnings performance of the Parallel import business

Revenue in the Parallel import business division reported in financial year 2018 fell by 2.1 % to EUR 237.8 million (previous year: EUR 243.0 million).

The decrease was attributable primarily to a portfolio optimisation in 2018 with a concentration on high-margin products, along with foregoing sales of high-priced products with very low margins. According to the market research firm INSIGHT Health, axicorp gained a market share of 8.9 %, establishing itself as number 4 on the list of Germany's top importers. Meanwhile, this approach also boosted the gross profit margin to 12.8 % (previous year: 11.9 %).

EBITDA reported in the Parallel import business division rose by 26.8 % to EUR 9.0 million in financial year 2018 (previous year: EUR 7.1 million). This development was based primarily on the optimisation of the product portfolio, a reduction of the cost of materials and the related increase in the gross income margin from demand-based purchasing. Earnings in the area of anaesthetics, fully integrated for the first time, were also improved further. Dermapharm thus increased the division's EBITDA margin to 3.8 % (previous year: 2.9 %).

2.3.2. Financial position of the Group

Consolidated statement of financial position as at 31 December 2018 and 31 December 2017

Assets EUR thousand	31 December 2018	31 December 2017
Non-current assets		
Intangible assets	189,935	133,404
Goodwill	54,622	24,583
Property, plant and equipment	80,874	56,036
Investments accounted for using the equity method	3,786	3,513
Equity investments	382	188
Other non-current financial assets	3,706	4,419
Deferred tax assets	39	290
Total non-current assets	**333,343**	**222,433**
Current assets		
Inventories	116,966	81,685
Trade receivables	34,124	24,677
Other current financial assets	1,365	78,318
Other current assets	4,272	1,575
Tax assets	1,990	329
Cash and cash equivalents	212,520	6,286
Total current assets	**371,238**	**192,870**
Total assets	**704,581**	**415,303**

Equity and liabilities EUR thousand	31 December 2018	31 December 2017
Equity		
Issued capital	53,840	120
Capital reserves	100,790	250
Retained earnings	100,993	25,669
Other reserves	(3,173)	(2,234)
Contributions in kind not yet registered	-	49,880
Equity attributable to owners of parent	**252,449**	**73,685**
Non-controlling interests	3,636	-
Total equity	**256,085**	**73,685**
Non-current liabilities		
Provisions for employee benefits	50,726	13,033
Non-current financial liabilities	232,743	222,483
Other non-current financial liabilities	3,395	4,476
Other non-current liabilities	10,783	10,024
Deferred tax liabilities	4,452	11,026
Total non-current liabilities	**302,098**	**261,042**
Current liabilities		
Other provisions	8,586	7,017
Current financial liabilities	71,577	32,264
Trade payables	28,181	23,367
Other current financial liabilities	6	5,592
Other current liabilities	15,016	9,025
Tax liabilities	23,032	3,311
Total current liabilities	**146,398**	**80,576**
Total equity and liabilities	**704,581**	**415,303**

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

Net debt (non-current and current financial liabilities as well as other non-current and current financial liabilities less cash and cash equivalents) decreased to EUR 95.2 million as at 31 December 2018 (31 December 2017: EUR 258.5 million). The financing agreements stipulate a right for the respective investor to withdraw the promissory note loan or bank loan upon a change of control or violation of the financial covenants. For additional information, please see section 2.3.3 Cash flows of the Group.

Accordingly, the ratio of net debt to the unadjusted EBITDA (leverage) fell to 0.7 in the 2018 reporting year (previous year: 2.3).

At 31 December 2018, the equity ratio amounted to 36.3 % (31 December 2017: 17.7 %). In the comparative period, the equity ratio was significantly influenced by the proceeds from the IPO on 9 February 2018 and the profit and loss transfer agreement between Themis Beteiligungs-AG and Dermapharm AG that was applicable until 31 December 2017. The profit and loss transfer agreement was terminated early as at 1 January 2018.

The financial position of the Dermapharm Group developed as shown below in financial year 2018:

The **total assets** increased to EUR 704.6 million as at 31 December 2018 (31 December 2017: EUR 415.3 million).

On the asset side of the statement of financial position, **intangible assets** increased by EUR 86.6 million to EUR 244.6 million as at 31 December 2018 (31 December 2017: EUR 158.0 million). This increase is due to the newly acquired

companies Strathmann and Trommsdorff and the intangible assets identified as part of the purchase price allocation. These transactions resulted in an increase in intangible assets for software, licenses, patents and similar rights amounting to EUR 64.5 million. Goodwill of EUR 54.6 million was added to intangible assets as at 31 December 2018 (31 December 2017: EUR 24.6 million). The acquisition of the companies Strathmann and Trommsdorff led to an increase of EUR 28.0 million. In addition, development expenses of EUR 10.4 million (previous year: EUR 10.6 million) were capitalised as internally generated intangible assets in financial year 2018.

Property, plant and equipment increased to EUR 80.9 million as at 31 December 2018 (31 December 2017: EUR 56.0 million). The increase was primarily attributable to the acquisition of Strathmann and Trommsdorff.

Financial investments accounted for using the equity method increased to EUR 3.8 million as at 31 December 2018 (31 December 2017: EUR 3.5 million). Two associates (31 December 2017: two) were accounted for in the consolidated financial statements using the equity method.

- Gynial GmbH, Vienna, Austria: Dermapharm GmbH, Vienna, acquired a 25.1 % interest in Gynial GmbH, Vienna, in 2015. Gynial focuses on products supporting the physical health and the well-being of women with an emphasis on prophylactic measures. Gynial is purely a sales company and does not operate any production facilities. Its strategic objective is to gradually shift more existing job order productions from third-party suppliers to mibe GmbH Arzneimittel, which already has a manufacturing area for contraceptives, thus expanding value creation within production. Furthermore, Gynial GmbH can benefit from future developments of the Group within the women's health sector. The carrying amount of the investment amounted to EUR 1.4 million as at 31 December 2018 (31 December 2017: EUR 1.3 million).

- Hasan Dermapharm Co. Ltd, Saigon, Vietnam: In financial year 2007, Dermapharm AG invested in Hasan Dermapharm Co. Ltd. Currently, Dermapharm holds 30 % of the company. Vietnam is characterised by an open market with the highest growth rate in southeast Asia. Hasan Pharma operates a WHO-GMP certified production plant capable of producing nearly all pharmaceuticals sold on the Vietnamese market. Dermapharm's contribution is the delivery of dossiers, which will be adjusted to Vietnamese standards and submitted to the local regulatory authority. 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 carrying amount of the investment amounted to EUR 2.4 million as at 31 December 2018 (31 December 2017: EUR 2.3 million).

Other non-current financial assets decreased to EUR 3.7 million as at 31 December 2018 (31 December 2017: EUR 4.4 million). They include primarily a claim that Dermapharm AG has connection with a foreign currency derivative against Themis Beteiligungs-AG amounting to EUR 2.6 million (31 December 2017: EUR 3.9 million) and recognised life insurance policies of Anton Hübner GmbH & Co. KG amounting to EUR 0.4 million (31 December 2017: EUR 0.4 million).

Inventories increased to EUR 117.0 million as at 31 December 2018 (31 December 2017: EUR 81.7 million). This development was attributable in particular to the sharp increase in inventories in the Parallel import business division as a result of higher production volumes to accommodate the increase in sales and the optimisation of the product portfolio planned for 2019. The increase in inventories in the Branded pharmaceuticals and other healthcare products division was attributable primarily to the expansion of the product portfolio in the individual Group companies, the initial consolidation of Strathmann and Trommsdorff, and ensuring adequate inventory levels. No inventories were pledged as securities for liabilities at the end of financial years 2018 and 2017.

Trade receivables increased to EUR 34.1 million as at 31 December 2018 (31 December 2017: EUR 24.7 million). The increase is attributable primarily to effects related to the reporting date and the cash flows deriving from these effects. Receivables primarily comprise those to wholesalers and pharmacies in Germany. In Germany, the Group companies have a base of solvent customers with good credit ratings. Defaults are the exception in the Branded pharmaceuticals and other healthcare products division. Therefore, no commercial credit insurance policies have been taken out. To minimise default risk, the Group has adequate debtor management policies in place. In addition, Dermapharm always obtains information on the credit quality of its customers before entering into new business transactions.

Other current financial assets fell to EUR 1.4 million as at 31 December 2018 (31 December 2017: EUR 78.3 million) due primarily to the settlement of receivables from profit and loss transfer agreements with Themis Beteiligungs-AG.

Cash and cash equivalents, including cash and demand deposits as well as current financial investments, increased to EUR 212.5 million as at 31 December 2018 (31 December 2017: EUR 6.3 million). This change is due to the effects described in the notes to the consolidated statement of cash flows.

Total equity increased to EUR 252.4 million as at 31 December 2018 (31 December 2017: EUR 73.7 million). This change was influenced primarily by preparations for and successful completion of the IPO of Dermapharm Holding SE, which is described in greater detail below.

Dermapharm Holding SE was formed on 4 July 2017 with subscribed capital initially amounting to EUR 120 thousand, which was divided into 120,000 no-par value registered shares. Each of these shares were fully paid in as at 31 December 2017 and were held directly by Themis Beteiligungs-AG, Grünwald, the sole shareholder. On 6 December 2017, the Company's Annual General Meeting approved an increase in subscribed capital, bringing it from EUR 120 thousand to EUR 50,000 thousand by way of a contribution in kind of EUR 49,880 thousand. The in-kind capital increase took place in the form of a contribution of 104,960 shares in Dermapharm AG (corresponding to 20 % of Dermapharm AG's share capital) as an in-kind contribution in exchange for the issuance of 49,880,000 new no-par value bearer shares in the Company, with each such share representing a notional interest in the share capital of EUR 1.00 per share. The remaining 419,840 shares of Dermapharm AG (80 % of the share capital of Dermapharm AG) were contributed without separate consideration from Themis Beteiligungs-AG to Dermapharm Holding SE and transferred to the Company. This contribution was made to the Company's unallocated capital reserve. The contribution and transfer of all shares of Dermapharm AG was completed with effect from 31 December 2017; the capital increase was recorded in the commercial register of the Munich local court on 4 January 2018. As at 31 December 2017, the Group reported in-kind contribution of EUR 49,880 thousand as equity under the item Contributions in kind not yet registered. In contrast, EUR 48,538 thousand was deducted from retained earnings and EUR 1,342 thousand from subscribed capital in financial year 2017. As a result, this reorganisation did not affect the total equity of the Group.

On 29 January 2018, Dermapharm Holding SE filed an application for admission of securities to trading on the Regulated Market of the Frankfurt Stock Exchange. Following an amendment to the Articles of Association on 7 February 2018, the 2018 share capital amounts to EUR 53,840 thousand and is divided into 53,840,000 no-par value shares. Each no-par value share carries one vote. Dermapharm first listed its shares on the regulated market of the Frankfurt Stock Exchange on 9 February 2018. Prior to that date, on 8 February 2018, the offer price for Dermapharm Holding SE's IPO was set at EUR 28.00 per share. A total of 13,455,000 shares in Dermapharm were offered. Of that number, 3,840,000 newly issued shares resulted from a capital increase and 9,615,000 shares stemmed from the holdings of the selling shareholder, including 1,755,000 shares for over-allotments ("Greenshoe option"). The gross proceeds from the capital increase amounting to approximately EUR 107,520 thousand are attributable to Dermapharm Holding SE. The EUR 103,680 thousand premium was transferred to the capital reserve. The Greenshoe option granted the stabilisation manager in the context of a securities loan the option to offer investors up to 1,755,000 additional shares for over-allotments at the placement price. Joh. Berenberg, Gossler & Co. KG exercised this Greenshoe option on 9 March 2018 in the amount of 1,155,000 shares. Thus, 40,985,000 shares continue to be held by the majority shareholder Themis Beteiligungs-Aktiengesellschaft. At the reporting date, the free float amounted to approximately 23.87 %.

In financial year 2018, additional costs of EUR 3,061 thousand directly attributable to the capital increase were incurred, which were deducted from the capital reserve. In total, costs of acquiring equity in the amount of EUR 3,140 thousand were deducted from the capital reserve.

Retained earnings amount to EUR 101.0 million as at 31 December 2018 (31 December 2017: EUR 25.7 million). They are the result of profits and losses carried forward from the previous reporting periods and the profit for the 2017 period less the profit and loss transferred or absorbed in 2017 under a profit and loss transfer agreement in place between Themis Beteiligungs-AG and Dermapharm AG. Upon termination of the profit and loss transfer agreement as at 31 December 2017, the profit transfer no longer applies beginning 1 January 2018.

Provisions for employee benefits (pension provisions) increased to EUR 50.7 million as at 31 December 2018 (31 December 2017: EUR 13.0 million). This increase was attributable primarily to the initial consolidation of Trommsdorff GmbH.

The current and non-current financial liabilities of the Group as at 31 December 2018 in the amount of EUR 71.6 million and EUR 232.7 million, respectively (31 December 2017: EUR 32.3 million and EUR 222.5 million, respectively) primarily comprise the promissory note loans I. + II. amounting to EUR 81.4 million, bilateral bank loans amounting to EUR 216.5 million, bank overdrafts amounting to EUR 6.1 million and finance lease liabilities amounting to EUR 0.4 million. The financing agreements stipulate a right of return for the respective investor upon a change of control or violation of the financial covenants.

Other provisions increased by EUR 1.6 million to EUR 8.6 million as at 31 December 2018 (31 December 2017: EUR 7.0 million). These mainly comprise provisions for health insurance organisation discount payments by the German companies.

Trade payables increased to EUR 28.2 million as at 31 December 2018 (31 December 2017: EUR 23.4 million). The increase was attributable primarily to effects related to the reporting date and the cash flows deriving from those effects. Furthermore, Strathmann and Trommsdorff were consolidated for the first time. They have remaining terms of up to one year and do not bear interest. They generally become due for payment within 0 to 60 days.

Other non-current financial liabilities and other non-current liabilities decreased to EUR 14.2 million as at 31 December 2018 (31 December 2017: EUR 14.5 million).

Other non-current financial liabilities primarily comprise the fair values of held-for-trading derivatives. The Group recognises the negative fair value of the cross-currency swap within other non-current financial liabilities. Moreover, other non-current financial liabilities include the negative fair values of interest rate swaps and floors as well as provisions for bonuses.

Other current financial liabilities and other current liabilities increased to EUR 15.0 million as at 31 December 2018 (31 December 2017: EUR 14.6 million).

Liabilities to related parties decreased by EUR 4.7 million due primarily to the offsetting of liabilities to Themis Beteiligungs-AG, the former parent company, in connection with the consolidated income tax group in place until 31 December 2017. The increase in other current liabilities is attributable mainly to the rise in other personnel-related liabilities amounting to EUR 4.0 million due to provisions for personnel expenses and provisions for bonuses. Other current liabilities have a maturity of up to one year and do not bear interest.

Tax liabilities increased to EUR 23.0 million in financial year 2018 (31 December 2017: EUR 3.3 million). This increase is attributable primarily to the new consolidated tax group established in connection with the profit and loss agreement entered into between axicorp and Dermapharm AG as well as income tax provisions recognised on account of Trommsdorff's excellent performance.

2.3.3 Financial position of the Group

Stable cash flows

Dermapharm's financial position and cash flows remained stable in the reporting period. Accordingly, the Group liquidity was guaranteed at all times in financial year 2018.

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

As at 31 December 2018, Dermapharm had access to credit lines amounting to EUR 89.2 million, of which EUR 83.1 million were available.

Financial management: principles and objectives

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

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

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

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

Overview of the structure of financial liabilities in the Dermapharm Group

Current remaining terms of the financial liabilities as at 31 December 2018 in EUR thousand

EUR thousand	< 1 year	1-5 years	> 5 years	Total
Promissory note loans I. + II.	53,494	27,879	-	**81,373**
Liabilities to banks	17,922	204,672	-	**222,594**
Finance lease liabilities	161	192	-	**353**
Total	**71,577**	**232,743**	**-**	**304,320**

For medium- and long-term financing of the Group, **promissory note loans** entered into by Dermapharm AG in 2012 and in 2014 existed as at the reporting data at nominal values of EUR 10 million and EUR 71.5 million and with terms maturing in 2019 and in 2019–21, respectively.

The seven-year tranche of promissory note loan I. at a nominal value of EUR 10 million is financed at a floating interest rate (6M EUR EURIBOR) plus a 2.00 % margin. The fixed tranches of promissory note loan II. at a nominal value of EUR 71.5 million are financed at a fixed interest rate of 1.77 % for the five-year term and a fixed interest rate of 2.20 % for the seven-year

term. The financing agreements stipulate a right of the investor to withdraw from the promissory note loan upon a change of control or violation of the financial covenants.

In addition, **liabilities to banks** amounted to EUR 222.6 million as at 31 December 2018 (31 December 2017: EUR 165.5 million). The share of bank overdrafts amounted to EUR 6.1 million as at 31 December 2018 (31 December 2017: EUR 13.5 million).

Bilateral loan agreements were entered into in 2017 with four German banks for the purpose of providing short- and medium-term financing for the business acquisitions and product purchases made at the end of 2017 and in early 2018. In each case, the nominal value of all of the bilateral loans of EUR 150 million was financed at a floating interest rate (3M EUR EURIBOR and 6M EUR EURIBOR) plus a margin of 1.1 % to 1.4 % and terms maturing in September 2022. The financing agreements stipulate a right of the lenders to withdraw from the loans upon a change of control or breach of the financial covenants.

Material new funding in the reporting period

In early 2018, a master working capital line was taken out in order to provide bridge financing for acquiring Trommsdorff. The loan with a nominal value of EUR 80 million bears a floating interest rate (3M EUR EURIBOR) plus a margin of 0.75 % and matures in September 2018. In September 2018, this master working capital line was replaced with a roll-over loan at a nominal value of EUR 75 million for medium-term financing. This loan is financed at a floating interest rate (6M EUR EURIBOR) plus a margin of 1.25 % and terms maturing in September 2022. The financing agreement stipulates a right of the lender to withdraw from the loan upon a change of control or breach of the financial covenants.

Material repayments in the reporting period

In 2010, Dermapharm AG issued participation rights at a nominal value totalling EUR 6.4 million maturing on 2 January 2018. The holders of the participation rights received a guaranteed remuneration of 10 % remaining constant over the term as well as a potential profit participation of 2 % of the nominal amount, and they participated in any loss up to the nominal amount. On 2 January 2018, all tranches of the participation rights issued in 2010 at a nominal value of EUR 6.4 million plus the interest incurred amounting to EUR 767 thousand was repaid on time.

Cash flow analysis

Cash flow statement (abridged)

EUR thousand	2018	2017
Net cash flows from operating activities	159,128	86,736
Cash flows from investing activities	(109,983)	(84,860)
Free cash flow	**49,145**	**1,876**
Net cash flows from financing activities	164,449	(7,976)
Cash flow	**213,594**	**(6,100)**
Cash and cash equivalents	212,520	6,286

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

The net cash flow from operating activities increased by EUR 72.4 million to EUR 159.1 million in the 2018 reporting year (previous year: EUR 86.7 million). This development was attributable primarily to the positive business performance and the initial consolidation of the newly acquired companies Strathmann and Trommsdorff. This was partly offset by income tax payments, which increased as a result of the termination of the profit and loss transfer agreement as of 31 December 2018 that existed between the former parent company Themis Beteiligungs-AG and Dermapharm AG and the related elimination of the consolidated tax group.

Cash flow from investing activities, which reflects the cash outflows for investments less the inflows from disposals, amounted to EUR -110.0 million in financial year 2018 (previous year: EUR -84.9 million).

Cash flow from investing activities was influenced primarily by payments for business combinations less available cash and cash equivalents amounting to EUR 93.1 million (previous year: EUR 13.7 million) and proceeds from excess purchase price as part of the business combinations amounting to EUR 7.2 million in financial year 2018 (previous year: EUR - million). Among other things, these include the purchasing the assets of the companies Strathmann and Trommsdorff, as well as 51 % of shares in BLBR GmbH.

Free cash flow, i.e. cash flow from ongoing business activities plus cash flow from investing activities, amounted to EUR 49.1 million in 2018 (previous year: EUR 1.9 million).

Cash flow from financing activities amounted to EUR 164.5 million in the reporting year (previous year: EUR -8.0 million).

Cash flows from financing activities increased primarily as a result of the proceeds from the shares issued amounting to EUR 107.5 million (previous year: EUR 120 thousand) as part of the IPO of Dermapharm Holding SE on 9 February 2018.

The payments of profit distributions under profit and loss transfer agreements were eliminated beginning at 1 January 2018 (previous year: EUR 77.6 million) due to the termination of the profit and loss transfer agreement between the former Group parent Themis Beteiligungs-AG and Dermapharm AG as at 31 December 2017.

Dermapharm also generated proceeds from financial liabilities in the amount of EUR 155.0 million by taking out new loans and made payments to repay financial liabilities in the amount of EUR 98.1 million. The bridge financing for the acquisition of Trommsdorff by means of a EUR 80 million master working capital line taken out in early 2018 and maturing in September 2018 was replaced with a roll-over loan at a nominal value of EUR 75 million in September 2018. This loan has a term maturing in September 2022.

Cash flow: Cash flow is a net balance of all inflows and outflows; the cash flow generated from ongoing business activities plus the cash flow from investing activities and less the cash flow from financing activities amounted to EUR 213.6 million in 2018 (previous year: EUR -6.1 million).

Investments

The Group's investment volume amounted to EUR 111.8 million in the 2018 reporting year (previous year: EUR 88.5 million). Of this amount, EUR 104.2 million is attributable to acquiring Strathmann and Trommsdorff, as well as acquiring 51% of shares in BLBR GmbH. Investments in intangible assets amounted to EUR 12.4 million (previous year: 70.2 million) and primarily comprise expenses for products being developed in house. Investments in property, plant and equipment amounted to EUR 13.6 million (previous year: EUR 4.5 million). Accordingly, the ratio of investments in property, plant and equipment to Group revenue amounted to 2.4% (previous year: 1.0% of Group revenue). Thus, of the overall investment volume in 2018, 12.1% was used for property, plant and equipment (previous year: 5.1%) and 87.9% for intangible assets (previous year: 79.3%).

For information about further investments in acquisitions and investments in financial assets after the reporting date, please see note 12 "Events after the reporting period" in the notes to the consolidated financial statements.

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

2.4.1 Business activities

In its articles of association as at 4 July 2017, the Company was established as a European company (Societas Europaea (SE)), in accordance with European and German laws. The business name is Blitz 17 663 SE; based in Munich, the Company is recorded in the commercial register of the Munich local court under the number HRB 234575. The Company was founded by Blitzstart Gruendungs Ltd. in London, United Kingdom. The Company commenced operations on 12 July 2017, the day on which the share capital remaining as of this date was fully paid up.

Themis Beteiligungs-AG acquired all of the Company's shares on 11 August 2017 under a share purchase and transfer agreement. On the same day, the Company's Annual General Meeting resolved to change the name to Dermapharm Holding SE and to move the Company's registered office to Grünwald. The name change and relocation were recorded in the commercial register of the Munich local court, HRB 234575, on 6 September 2017. The Company name is Dermapharm Holding SE. The Company has its registered office at Lil-Dagover-Ring 7, 82031 Grünwald, Germany.

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

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

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

The annual financial statements of Dermapharm Holding SE is prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and taking account of the supplementary provisions of the SE Regulation and of the German Stock Corporation Act (Aktiengesetz, AktG).

The complete annual financial statements of Dermapharm Holding SE are available at the Company's website ir.dermapharm.de in the section Publications under the item Financial Reports.

2.4.2 Management system and performance indicators

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

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

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

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

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

2.4.3 Financial performance of Dermapharm Holding SE

Earnings before interest, taxes, depreciation and amortization (EBITDA) serve as the central control parameters for the Management Board in order to measure the success of business activities.

Income statement

EUR thousand	2018	2017
Revenue	4,274	-
Other operating income	53	-
Personnel expenses	(3,805)	-
Amortisation of intangible fixed assets and depreciation of property, plant and equipment	(7)	-
Other operating expenses	(5,153)	(1,481)
Other interest and similar income	552	-
Interest and similar expenses	-	(2)
Earnings after tax	**(4,086)**	**(1,482)**
Other taxes	(658)	(0)
Net loss for the financial year	**(4,744)**	**(1,482)**
Loss carried forward from the previous year	(1,482)	-
Withdrawal of capital reserve	47,683	-
Retained earnings/loss	**41.457**	**(1.482)**

The **revenue** in financial year 2018 amounted to EUR 4.3 million (previous year: EUR - million) and comprised solely amounts charged for services rendered to companies of the Group.

Personnel expenses amounted to EUR 3.8 million in financial year 2018 (previous year: EUR - million) and comprise the Business Development department and the Company's Management Board.

Other operating expenses amounted to EUR 5.2 million in financial year 2018 (previous year: EUR 1.5 million). The increase is primarily attributable to the higher legal and consulting fees and expenses related to the preparation of financial statements and for auditing necessary during the preparation and transition measures related to the IPO and the subsequent stock market listing.

EBITDA amounted to EUR -5.3 million in financial year 2018 (previous year: EUR -1.5 million).

Other interest and similar income amounted to EUR 0.6 million in financial year 2018 (previous year: EUR - million) and consisted primarily of intercompany income.

Earnings after tax amounted to EUR -4.1 million in financial year 2018 (previous year: EUR -1.5 million).

Other taxes amounted to EUR 0.7 million in financial year 2018 (previous year: EUR - million). Other taxes relate to real estate transfer tax in connection with the contribution of all shares of Dermapharm AG to Dermapharm Holding SE. This also included the indirect contribution of the shares of mibe GmbH, Anton-Hübner GmbH & Co. KG and Bio-Diät Berlin GmbH. Real estate transfer tax was incurred because the assets of these companies also included real estate.

The **net loss for the financial year** amounted to EUR -4.8 million in financial year 2018 (previous year: EUR -1.5 million).

The **retained earnings** of EUR 41.5 million for financial year 2018 will be used to pay the full dividend proposed by the Management Board.

2.4.4 Financial position of Dermapharm Holding SE

The financial position of Dermapharm Holding SE developed as shown below in financial year 2018:

Assets **EUR thousand**	**31 December 2018**	**31 December 2017**
Fixed assets		
Intangible assets	22	-
Shares in affiliated companies	1,261,844	1,261,844
Total fixed assets	**1,261,867**	**1,261,844**
Current assets		
Receivables from affiliated companies	40,839	-
Other assets	4	208
Total current assets	**40,843**	**208**
Bank balances	**64,958**	**134**
Prepaid expenses	**279**	**32**
Total assets	**1,367,947**	**1,262,218**

Equity and liabilities **EUR thousand**	**31. December 2018**	**31. December 2017**
Equity	**1,363,258**	**1,260,482**
Provisions		
Other provisions	1,598	350
Total provisions	**1,598**	**350**
Liabilities		
Trade payables	64	91
Liabilities to affiliated companies	843	1,295
Other liabilities	2,183	-
Total liabilities	**3,090**	**1,386**
Total equity and liabilities	**1,367,947**	**1,262,218**

The net assets of Dermapharm Holding SE developed in the 2018 financial year as shown below:

The **total assets** increased to EUR 1,368 million as at 31 December 2018 (31 December 2017: EUR 1,262 million).

The **shares in affiliated companies** amounted to EUR 1,262 million as at 31 December 2018 (31 December 2017: EUR 1,262 million) and includes the interest in Dermapharm AG.

Receivables and other assets increased as a result of intercompany receivables to EUR 40.9 million (31 December 2017: EUR 0.2 million). Receivables consist primarily of a loan to Dermapharm AG.

Bank balances, including cash and demand deposits as well as current financial investments, increased to EUR 65.0 million as at 31 December 2018 (31 December 2017: EUR 0.1 million).

Equity increased to EUR 1,363 million as at 31 December 2018 (31 December 2017: EUR 1,260 million) due primarily to the increase in capital reserves in connection with the IPO on 9 February.

Other provisions increased to EUR 1.6 million as at 31 December 2018 (31 December 2017: EUR 0.3 million) due in particular to personnel-related provisions.

Other liabilities increased to EUR 2.2 million as at 31 December 2018 (31 December 2017: EUR - million). These comprise primarily VAT liabilities within the consolidated tax group. Since 1 January 2018, Dermapharm Holding SE has been the consolidated tax group parent of a consolidated income tax group.

2.4.5 Financial position of Dermapharm Holding SE

Dermapharm Holding SE's financial position and cash flows remained stable in the reporting period. Accordingly, the Company's liquidity was guaranteed at all times in financial year 2018.

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

Dermapharm Holding SE itself entered into no short-, medium- and long-term financial liabilities with banks during the reporting period. Therefore, no lines of credit were available. However, it is jointly and severally liable for the loans, promissory note loans and lines of credit of Dermapharm AG.

Please refer to section 2.3.3 of the combined management report for information on the structure of these financing instruments.

The retained earnings disclosed in the financial year 2018 will be paid off in full in the financial year 2019 for the dividend payment proposed by the Management Board.

2.5 Overall assertion on the economic situation

Overall assertions on the Group

In financial year 2018, the Dermapharm Group continued the successful implementation of its strategy and effectively utilise numerous synergy effects to improve efficiency in the Group.

Dermapharm successfully built on its positive business performance and achieved the targets forecast in its 2017 Annual Report.

Revenue increased by 22.5 % to EUR 572.4 million (previous year: EUR 467.1 million).

- Division: Branded pharmaceuticals and other healthcare products 49.4 %
- Division: Parallel import business -2.1 %

Adjusted for non-recurring costs in connection with the preparations for the IPO and the acquisitions of Strathmann and Trommsdorff of EUR 3.8 million, Dermapharm's EBITDA increased by 27.0 % to EUR 143.4 million (prior year: EUR 112.9 million).

The unadjusted EBITDA increased by 26.7 % to EUR 139.6 million (previous year: EUR 110.2 million).

- Division: Branded pharmaceuticals and other healthcare products 27.0 %
- Division: Parallel import business 26.8 %

Overall assertion on Dermapharm Holding SE

In financial year 2018, Dermapharm Holding SE successfully completed the planned and prepared IPO on 9 February 2018.

3. Report on Opportunities and Risks

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

3.1 Risk management system

Objective

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

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

RMS organisation

The risk management system is managed centrally through the risk management officer, it is tested for effectiveness and appropriateness on a regular basis and is entirely the responsibility of the Management Board. By contrast, risks are monitored and managed at the local level. Depending on the risk category and risk scope, this is the responsibility of the division managers and managing directors as well as the members of the Dermapharm Holding SE Management Board. Potential risks are recorded by regular polling, either verbally or in writing, conducted in all relevant divisions and at all material companies.

RMS process

A defined group of risk managers are responsible for regularly identifying, analysing and assessing risks using an established set of risk categories and assessment methodology. The potential extent of damage from the risk and likelihood of the risk occurring are assessed taking into account the countermeasures that have already been implemented. Risks are classified as low, medium or high depending on the combination of the extent of damage and the likelihood of occurrence. Risk classification is the basis for prioritising the measures necessary to manage risk. A full report with a comprehensive assessment of the risk situation is provided to the Management Board and the Supervisory Board at regular intervals.

Risk identification

Identification and handling of risks is firmly anchored in the corporate principles and is the responsibility of all Group employees. In order to ensure that risks are fully recorded, they are grouped into categories.

In general, Dermapharm differentiates between the following risk categories:

External risks:

- Industry-related external risks
- Regulatory risks
- Other external risks

Operational risks:

- Strategic operational risks
- Performance-related operational risks
- Risks in developing new compounds
- Parallel import business risks

Product portfolio risks

Legal risks

Financial risks:

- Funding and liquidity risks
- Interest-rate risks
- Currency risks
- Tax risks
- IT risks

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

Risk assessment and management

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

The risk assessment found no risks for financial year 2018 or for the forecast period that would jeopardise the ability of the Group or any individual subsidiary to function as a going concern.

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

3.2 Accounting-related internal control system

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

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

3.3 Compliance Management

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

The Chief Compliance Officer (CCO) is responsible for managing and monitoring the necessary activities at the Group level and supported by additional compliance officers in the individual companies. The CCO in turn reports at regular intervals to the Management Board, which initiates corresponding measures when violations are committed. Another component of the compliance management system is the compliance manual which includes Dermapharm's mandatory compliance guidelines and a compliance card summarising the main rules of conduct. Appropriate communication channels are available to all employees of Dermapharm to report potential compliance violations.

3.4 Risk report

External risks

Sector-specific risks

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

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

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

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Regulatory risks

Numerous regulations govern the pharmaceuticals and healthcare market. Lifting or amending regulations or passing new regulations, for example as part of healthcare reform, could have significant economic and strategic effects on Dermapharm's business activities and adversely affect its performance. Regulations at the national or supranational level are highly significant if they affect the market structure, pricing and/or product approvals in the public healthcare sector. In principle, for all products in the healthcare market, but especially for pharmaceutical products, there is the risk that they will no longer be covered or the reimbursement rates will be lowered due to regulatory interventions in the respective national social security systems. The prices for off-patent pharmaceuticals are also exposed to price pressure originating resulting from discount agreement with statutory health insurers. All of this can result may reduce the profitability of individual products and, in some cases, may mean that bringing a product to market is unprofitable.

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

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Other external risks

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Operational risks

Strategic business risks

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

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

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Performance-related operational risks

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

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

On the purchasing side, there are risks of potential supply bottlenecks and price volatility pertaining to raw materials and energy. Dermapharm depends on a limited number of suppliers and third-party manufacturers for the raw materials it requires to manufacture its products. Interruptions in the supply chain could considerably impair Dermapharm's business activities. In addition, an increase in the price of ingredients could result in a higher cost basis in production. A price drop in this area could, in turn, necessitate the recognition of impairment losses on inventories.

Dermapharm has inventory and purchasing policies in place to prevent this. Significant portions of the raw materials supply are covered by long-term supply agreements and price escalation clauses in the supplier agreements. We protect ourselves from potential supplier bottlenecks, due for instance to the loss of a supplier, by employing an appropriate inventory strategy and alternative sources.

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Risks in developing new compounds

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

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as medium.

Parallel import business risks

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

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

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

A current legislative process (German Act for More Safety in the Supply of Pharmaceuticals (Gesetz für mehr Sicherheit in der Arzneimittelversorgung, "GSAV")) involves amending the affordability clause under § 129 (1) (2) of the German Social Security Code, Book V (Sozialgesetzbuch, Fünftes Buch, "SGB V"). The draft bill proposes eliminating the disclosure "or at least EUR 15.00". Instead, affordability should be met given a price differential to the price of the reference pharmaceutical of at least 15 % for a selling price of EUR 100, at least EUR 15 for a selling price from EUR 100 to EUR 300, and at least 5 % for a selling price of more than EUR 300.

In parallel, there is also a draft framework agreement in accordance with § 129 (2) SGB V based on the identical affordability provisions as those in the draft bill referenced above. Furthermore, the savings target that was intended to be met by selling affordable imported pharmaceuticals was redefined. It should be the difference between expenditure for the affordable imported pharmaceuticals sold and the expenditure for the respective reference pharmaceutical taking into consideration the statutory discounts and amount to 2 % of the imputed total cost. In addition, in the case of generic active ingredients not covered by discount agreements, the draft framework agreement will stipulate that the pharmacist is obligated to sell one of the four most affordable pharmaceutical registration numbers (Pharmazentralnummer, "PZN").

The extent to which this proposal can be implemented in 2019 remains to be seen. If one of the alternatives is implemented, either in part or in full, axicorp will have to adjust its pricing and portfolio to the new conditions. The potential changes present risks and opportunities. In terms of risk, the margin and profitability of the portfolio might be adversely affected. In terms of opportunity, this represents potential for growth, since the pharmacists could face significantly higher obligatory sales.

Additionally, proposals from the upper house of Germany's parliament call for abolishing the reimport quotas altogether. The clause for promoting import in accordance with § 129 (1) (2) SGB V has been politically challenged on repeated occasions, prompted mostly by supporters of the companies conducting pharmaceutical research.

The argument is that the clause is no longer needed since savings can now be generated through other instruments (discount agreements, cost-benefit analyses, etc.). In actuality, however, reimport remain de facto the only instrument to regulate prices on the patent-protected market. Even a theoretical abolishment of the clause for promoting import would not directly affect the reimport industry. At 8.7 % in 2018, pharmacy sales actually far exceeded the mandatory quota of 5 %. Even without quotas, reimport are of interest – both for pharmacists as well as patients. On one hand, this is because reimporters grant better purchasing terms in some cases. Patients, on the other hand, create corresponding demand in their capacity as self-payers for non-reimbursable or lifestyle pharmaceuticals (e.g., contraceptives, travel vaccines, etc.). Nevertheless, there is a risk – if the import quotas are abolished – that the smaller pharmacies in particular will distance themselves from reimport and that as a result the import sales market will shrink.

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as medium.

Product portfolio risks

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

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

In addition, when new products are developed and authorisations are sought, it is crucial that the relevant legal requirements be observed to the letter. This is particularly so when it comes to observing intellectual property rights (such as patents and summaries of product characteristics of pharmaceuticals) when developing off-patent pharmaceuticals. If individual legal requirements are not complied with, this can result in delays in the sale and distribution of a new product, the sale and distribution may be prevented due to legal actions by competitors, or authorisations by the relevant authorities may be denied. If Dermapharm has sold products under the assumption that there were no legal grounds preventing it from doing so and it is established through the courts that this assumption was erroneous, there is the risk that products must be removed from the market, written off and destroyed, all at considerable cost. In addition, there is the risk of substantial claims for damages, including in the event of a violation of intellectual property rights.

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

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

It is possible that despite comprehensive tests and trials, side effects or initially undetected defects are discovered to affect existing products only after they have received approval or been marketed. Additionally, new scientific findings can result in a less favourable risk/reward analysis with the consequence being that the compound must be partially or entirely withdrawn from the market. Such a suspension of sales may be

due to legal or regulatory measures or may be implemented voluntarily by the Company at its due discretion. Additionally, court proceedings and associated claims for damages resulting from such findings could have a considerable adverse effect on the Company's operating profit.

Dermapharm actively minimises risks by comprehensively observing relevant sources of regulation and intellectual property databases and by developing alternative course of action on the basis of these observations. In order to protect its brands and avoid negative publicity, Dermapharm is able to recall certain products which fail to meet Dermapharm's own high standards of quality, even if there is no risk to customers or statutory obligation to do so.

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Legal risks

Legal risks which could potentially have an adverse effect on Dermapharm's business activities include litigation, risks of liability and loss and failure to comply with laws and legal requirements.

The risk of litigation includes potential patent disputes to which Dermapharm may become a party as part of its ordinary course of business as a manufacturer of off-patent pharmaceuticals, e.g., in relation to alleged product liability, violation of intellectual property, labour matters or breaches of contract. Dermapharm may incur costs stemming from the assertion of or defence against such claims. This could expose Dermapharm to considerable liability or have an adverse effect on its business.

The risks of liability and loss to which Dermapharm may be exposed in the course of its business and as the result of selling pharmaceutical compounds are limited through corresponding insurance policies, specifically a pharmaceuticals product liability insurance policy.

There is the risk that Dermapharm's existing compliance structure is inadequate and this may have a detrimental effect on Dermapharm's business, as may any failure to comply with the relevant laws and legal requirements. Dermapharm has implemented various measures to ensure compliance with the applicable requirements, including the establishment of a compliance organisation and a compliance manual (see section 3.3 Compliance management for additional information).

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Financial risks

Funding and liquidity risks

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

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Interest-rate risks

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

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Currency risks

The Dermapharm Group prepares its accounts with the Euro as its Group currency. Since the Group's business is international in nature, it is exposed to risks arising from exchange rate volatility. In particular receivables and liabilities denominated in other currencies are subject to the risk of a change in value. Additionally, accounting risks can arise from exchange rate fluctuations affecting the consolidated financial statements as well as from the translation of items of the statement of

financial position and items of income and expense for foreign subsidiaries with a local currency other than the Euro. In this connection, any appreciation (depreciation) of the Euro against other currencies could have a negative or positive effect.

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

Tax risks

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

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

In light of the termination of the profit and loss transfer agreement between Themis Beteiligungs-AG and Dermapharm AG on 31 December 2017, the consolidated income tax group also ceased to apply to Themis Beteiligungs-AG from that date. Therefore, starting in financial year 2018, current income taxes for the companies included in the new consolidated income tax group will be recognised by Dermapharm AG for the first time and, going forward, the results of audits will directly affect the Group.

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

IT risks

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

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

Taking into account the probability of occurrence and the extent of damage, the potential effects of the risks described on the assets, liabilities, financial position and profit or loss are classified as low.

3.5 Report on opportunities

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

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

Dermapharm is actively working to implement its strategy for continued development. Its corporate strategy comprises three pillars: (1) active portfolio management by developing its own new products in-house to strengthen the individual product areas; (2) internationalisation strategy to tap into selected

attractive markets in Europe; and (3) active participation in industry consolidation through acquisitions, partnerships and divestments. Dermapharm intends to actively leverage the growth opportunities arising from this strategy going forward.

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

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

The acquisitions of Strathmann and Trommsdorff provide the opportunity to pool compounds within the Group and to strengthen the pain management therapy field, tap new doctors' groups with new sales force capacities and focus on purchasing, production and logistics processes.

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

The interest in FYTA (20 %), a Dutch producer of cannabis products for pharmaceutical applications, followed in March 2019, allowing Dermapharm to gain access to the market for medical cannabis and further expand the portfolio in the new pain management therapy field.

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

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

3.6 Overall assertion – assessment and summary

Dermapharm believes that there are opportunities for future development in particular in the pharmaceuticals market's independence from economic cycles, the growth potential in the area of off-patent pharmaceuticals, international sales and distribution, efficient cost management and high product standards. Dermapharm intends to systematically leverage these growth opportunities through its growth strategy, which involves in-house product development, internationalisation and M&A activities.

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

Given Dermapharm's financial stability, the Group believes that it is well equipped to manage the future risks. This view is also underscored by the successful initial public offering conducted in February 2018.

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

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

4. Report on expected developments

4.1. Outlook

In its report on expected developments, Dermapharm discusses, to the extent possible, its expectations with respect to the future development of Dermapharm and the market environment in which the Group operates for financial year 2019.

Expected development of the market environment

The International Monetary Fund forecasts that in financial year 2019, growth in the global economy will slow to 3.5 %, with slightly higher growth in 2020 at 3.6 %. By contrast, German real GDP is expected to grow at a slower pace: in 2019 and 2020, it is forecasted to grow by 1.3 % and 1.6 %, respectively.

In its report "World Preview 2018, Outlook to 2024", Evaluate Ltd. expects the global market for prescription pharmaceuticals to grow at an average annual rate of 6.4 % until 2024, reaching USD 1.2 billion. The market for off-patent pharmaceuticals, meanwhile, is expected to grow at an average annual rate of 5 % through 2024.

Expected development of the Group

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

However, changing regulatory, competitive and economic conditions might also adversely influence the Group's revenue and earnings trend. For a more detailed look at these risks, please refer to our report on opportunities and risks.

In light of plans to further develop the Group as part of our three pillar strategy comprising in-house product development, internationalisation into selected markets and targeted M&A activities, the Management Board by and large expects to continue achieving growth. A more detailed description of the opportunities and risks for the Group is presented in the report on opportunities and risks.

Thanks to its successful product development activities and well-filled pipeline, products with organic growth potential as well as its active acquisition policy – with the Group adding value through acquisitions in financial year 2018 – Dermapharm will be able to continually expand the Group's portfolio in the "Branded pharmaceuticals and other healthcare products" division.

In the "Parallel import business" division, as soon as it is economically feasible, in order to expand its portfolio of compounds, Dermapharm will apply to receive import licences for compounds newly introduced by original developers. The current legislative process as described in the report on opportunities and risks will have a significant impact on determining the further performance of this division.

By acquiring the Spanish company Euromed in January 2018, we expanded our own value chain with the production of herbal extracts and strengthened our know-how on the growth market for herbal pharmaceuticals. The production of herbal extracts will form its own separate division from financial year 2019 onwards.

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

Fundamental assumptions underlying the forecast

The forecast for financial year 2019 was prepared taking into account known events which had taken place at the time this annual report was prepared. In addition, the macroeconomic and industry-specific outlook were also factored into the forecast.

Furthermore, our forecast is based on the following assumptions:

- Largely stable regulatory conditions in the markets of relevance to us
- Current group of consolidated companies to remain constant, including newly acquired companies as described
- Optimisation of manufacturing costs by making more products in house
- Successful market launch of own development pipeline
- Successful integration of companies acquired in 2018 and 2019 and systematic utilisation of created synergies
- Largely stable tax conditions in the countries in which our Group companies operate

Expected development of the individual company Dermapharm Holding SE

The Management Board assumes that the external capital required for the preparation of the IPO and the additional requirements due to the necessary consulting services resulting from the capital market orientation of the company can be reduced in 2019 and partly taken over by internal resources. This means that the total external consulting expenditure and the associated costs can be reduced.

Basic assumptions for the forecast of the individual company Dermapharm Holding SE

The forecast for the financial year 2019 was based on the following assumptions of known events that occurred at the time of the creation of the annual report.

In addition, the forecast is based on the following assumptions:

- Retention of the contents of the recharge agreement with the subsidiaries
- Constant retention of the current scope of consolidation
- Tax environment largely unchanged

4.2 Overall assertion on future development

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

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

The legal environment in the field of parallel import is currently difficult to assess and could potentially change. As a result of this, along with the continually growing market suitable for import having a compensating effect, we also continue to anticipate relative stable business growth for the parallel import business. In this area, Dermapharm sees opportunities to adjust pricing and the portfolio.

The future new "Herbal extracts" division will be able to build on the growth trend of the past years. To this end, Euromed can rely on a broad international customer base, many years of development expertise and production facilities which are designed accordingly.

The Management Board therefore expects the Group to experience continued year-on-year growth in financial year 2019.

Consolidated revenue is expected to be up year on year by 14 % to 19 %, and EBITDA is expected to increase by 17 % to 22 % over the figure for financial year 2018. These growth rates are based on organic growth, new launches of in-house developments and growth from the new acquisitions included in the forecast.

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

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

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

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

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

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

5.2. Restrictions applicable to voting rights or the transfer of shares

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

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

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

Themis Beteiligungs-Aktiengesellschaft, Lil-Dagover-Ring 7, 82031 Grünwald, Germany: 76.13 % share of voting rights.

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

5.4 Shares conferring special rights granting powers of control

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

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

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

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

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

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

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

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

5.7 Management Board's authority to issue or repurchase shares

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

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

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

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

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

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

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

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

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

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

Financing agreements

As borrower, Dermapharm AG is party to promissory note loans entered into in 2012 and in 2014, with terms maturing in 2019 and 2019–21, respectively. The provisions of the financing agreements stipulate that, if a change of control occurs, the lender – each individually or in aggregate – is authorized to terminate the loan at face value (in each case plus interest accrued by the date of repayment) in the amount of the lender's respective participation in the total face value of the loan by means of written notification to the loan participants and observing a 30-day notice period. A change of control has occurred when any person or group of persons voting in concert as defined in § 22 (2) WpHG at any point in time, directly or indirectly (as defined in § 22 (1) WpHG), obtains control over the majority of the voting rights in the borrower's capital.

The Dermapharm Group received various bilateral loans with different German banks in 2018 for long-term financing. These loans include the following summarised provisions on change of control: If there is a change of control in the borrower, the banks are authorised to stop issuing payments under these loan contracts and/or to terminate the loan observing a notice period. Control means that a person or a group of persons acting in concert directly or indirectly holds over 50 percent of the borrower's shares and/or voting rights.

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

Distribution agreements

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

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

Agreements with members of the Management Board

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

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

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

6. Corporate Governance Report

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

As a listed company in Frankfurt, Dermapharm Holding SE hereby issues the following corporate governance statement for the 2018 financial year on behalf of Dermapharm Holding SE and the Dermapharm Group in accordance with §§ 289f and 315d of the German Commercial Code (Handelsgesetzbuch, "HGB").

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

6.1.1 Declaration of conformity in accordance with § 161 AktG (updated April 2019)

In February 2019, the Management Board and Supervisory Board of Dermapharm Holding SE issued the following "Declaration of Conformity February 2019" with the recommendations of the Government Commission on the German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex) in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz, "AktG"):

Updating their annual declaration of conformity issued in April 2018, the Management Board and Supervisory Board of Dermapharm Holding SE, Grünwald, hereby declare that, since the date of the admission of its shares to trading on the Regulated Market of the Frankfurt Stock Exchange, the Company has complied and will continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code published by the German Federal Ministry of Justice (Bundesministerium der Justiz) in the official section of the Federal Gazette (Bundesanzeiger) in the version dated 7 February 2017 (Regierungskommission Deutscher Corporate Governance Kodex, the "Code"), published in the Federal Gazette on 24 April 2017 and amended by publication in the Federal Gazette on 19 May 2017, with the following exceptions:

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

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

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

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

Declaration of conformity in accordance with § 161 para. 2 AktG (updated May 2018)

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

Grünwald, February 2019

Dermapharm Holding SE

The Management Board The Supervisory Board

This Declaration of conformity has also been made permanently accessible to the public on the Company's website at "ir.dermapharm.de". Past declarations of conformity with the Code may also be inspected there.

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

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

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

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

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

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

Management Board

Responsibilities of the Management Board

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

Composition and competences of the Management Board

In financial year 2018 the Management Board comprised four members with the following areas of responsibility:

- Dr Hans-Georg Feldmeier, Chairman of the Management Board (under contract until 31 July 2020), is responsible for Product Development and Production.
- Stefan Grieving, member of the Management Board (under contract until 31 July 2020), is responsible for Marketing and Sales.
- Karin Samusch, member of the Management Board (under contract until 31 July 2020), is responsible for Business Development, HR, Legal & Compliance.
- Stefan Hümer, member of the Management Board (under contract until 31 July 2020), is responsible for Finance, Corporate Communications and Investor Relations.

For more information about the members of the Management Board, see Dermapharm Holding SE's website at "ir.dermapharm.de" under Company/Boards/Management Board.

Working practices of the Management Board

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

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

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

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

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

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

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

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

Dermapharm's Management Board has not established any committees.

Management Board remuneration

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

Supervisory Board

Responsibilities and competences of the Supervisory Board

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

It approves the corporate planning and the annual financial statements of Dermapharm AG and the consolidated financial statements of the Dermapharm Group.

Composition of the Supervisory Board

In financial year 2018, the Company's Supervisory Board consisted of three members.

The following persons were members of the Supervisory Board:

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

Working practices of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

Remuneration of the Supervisory Board

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

Transparent corporate governance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The target set for female representation:

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

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

The level of female representation in the two levels of management below the Management Board at the time of determination on 31 December 2018 was:

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

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

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

Female representation in the first level of management was 46 % as at 31 December 2018, thus exceeding the target set at the beginning of 2018.

Female representation in the second level of management was 50 % as at 31 December 2018, thus also slightly exceeding the target set at the beginning of 2018.

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

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

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

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

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

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

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

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

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

Please refer to item 9 of the notes to the consolidated financial statements in this annual report for the aggregate amount of remuneration paid to members of the Management Board in financial year 2018.

6.3.2 Management Board remuneration

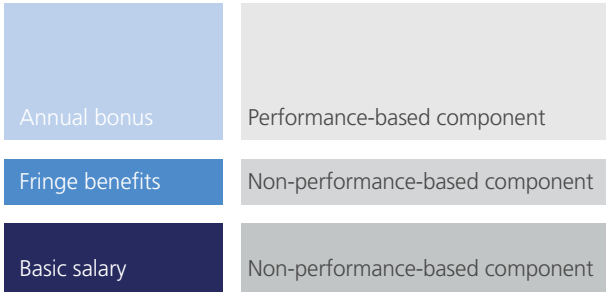
In accordance with § 87 AktG, the Supervisory Board of Dermapharm Holding SE duly addresses the issue of the Management Board's remuneration and the reasonableness of such remuneration. It does so regularly, at least once each year. The individual components and their impact on future Management Board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

Main features of the remuneration scheme

The Management Board remuneration scheme valid for the reporting period entered into force across the board for all Management Board members on 1 January 2018. It is geared

towards creating incentives for lasting and successful business performance and added value, which the members of the Management Board are intended to share in. Special achievements are intended to be rewarded, while failure to achieve targets is to lead to a noticeable reduction in remuneration. The individual performance-based components are subject to a cap.

Graphic:



Non-performance-based component

Fixed salary

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

Fringe benefits

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

Performance-based component

Variable components

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

Before the beginning of each financial year, the Supervisory Board sets target variable remuneration for the coming financial year (short-term and long-term components) for the Management Board in relation to business performance. The reference figure is absolute consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation) as taken from the three-year operating plan approved by the Supervisory Board. A long-term incentive is created by virtue of the fact that the bonus for a particular financial year is calculated by reference to the consolidated EBITDA generated in that financial year (baseline year) and the two subsequent financial years (multi-year calculation basis). The targets for the 1st, 2nd and 3rd-year components of the bonus are set based on the 3-year plan approved for the baseline year. The Supervisory Board sets the targets within the first 4 months of the baseline year having regard to current developments.

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

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

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

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

Absolute cap

Total remuneration, i.e. the sum of the fixed salary and the annual performance-based bonus, is subject to an absolute cap for each Management Board member every year of the term of their contract. The amount of total remuneration is reasonable compared to other stock corporations and other companies of a similar size. It takes both positive and negative

developments into account. In addition, the individual components do not encourage the Management Board to take unreasonable risks. In summary, it can be said that the remuneration paid to the members of Dermapharm Holding SE's Management Board is geared towards sustainability.

For the 2018 financial year, the Supervisory Board approved advance quarterly payments towards the short-term component. Provisions were set aside in financial year 2018 to cover the potential remaining payments in respect of the short-term component and the estimated amount payable for the long-term components (2019 and 2020), and these payments will be made in the following year in each case.

Commitments to Management Board members

If a member of the Management Board is temporarily unfit for work as a result of illness or for other reasons for which the member is not responsible, his or her remuneration will continue to be paid for a duration of 6 weeks, but not beyond the termination of his or her contract of service. Members of the Management Board do not otherwise have any entitlement to the continued payment of remuneration. For periods of absence during which, according to the above, there is no entitlement to the continued payment of remuneration, the variable remuneration is prorated.

Miscellaneous

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

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

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

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

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

6.3.3 Supervisory Board remuneration

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

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

According to this provision, the members of the Supervisory Board receive a fixed amount of remuneration for each full financial year of their Supervisory Board membership, amounting to EUR 70,000 for each Supervisory Board member. The remuneration is being paid for the first time in respect of the 2018 financial year.

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

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

Supervisory Board remuneration in financial year 2018:

- Chairman of the Supervisory Board: Wilhelm Beier EUR 52,500. A provision was created for the remaining amount of EUR 17,500. (Member of the Supervisory Board since the close of the extraordinary general meeting on 11 August 2017)
- Deputy Chairman of the Supervisory Board: Dr Erwin Kern EUR 52,500. A provision was created for the remaining amount of EUR 17,500. (Member of the Supervisory Board since the close of the extraordinary general meeting on 11 August 2017)
- Member of the Supervisory Board: Lothar Lanz EUR 52,500. A provision was created for the remaining amount of EUR 17,500. (Member of the Supervisory Board since 1 January 2018; by resolution of the extraordinary general meeting on 6 December 2017)

Miscellaneous

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

7. Concluding declaration to the dependent company report

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

The Management Board declares that, with regard to the legal transactions and measures cited in the report on relationships with affiliated companies in the reporting period from 1 January 2018 to 31 December 2018 and based on the circumstances known to us at the time when the legal transactions or measures were undertaken or omitted, the Company received appropriate consideration for each legal transaction and the Company was not adversely affected by the fact that measures were undertaken or omitted.

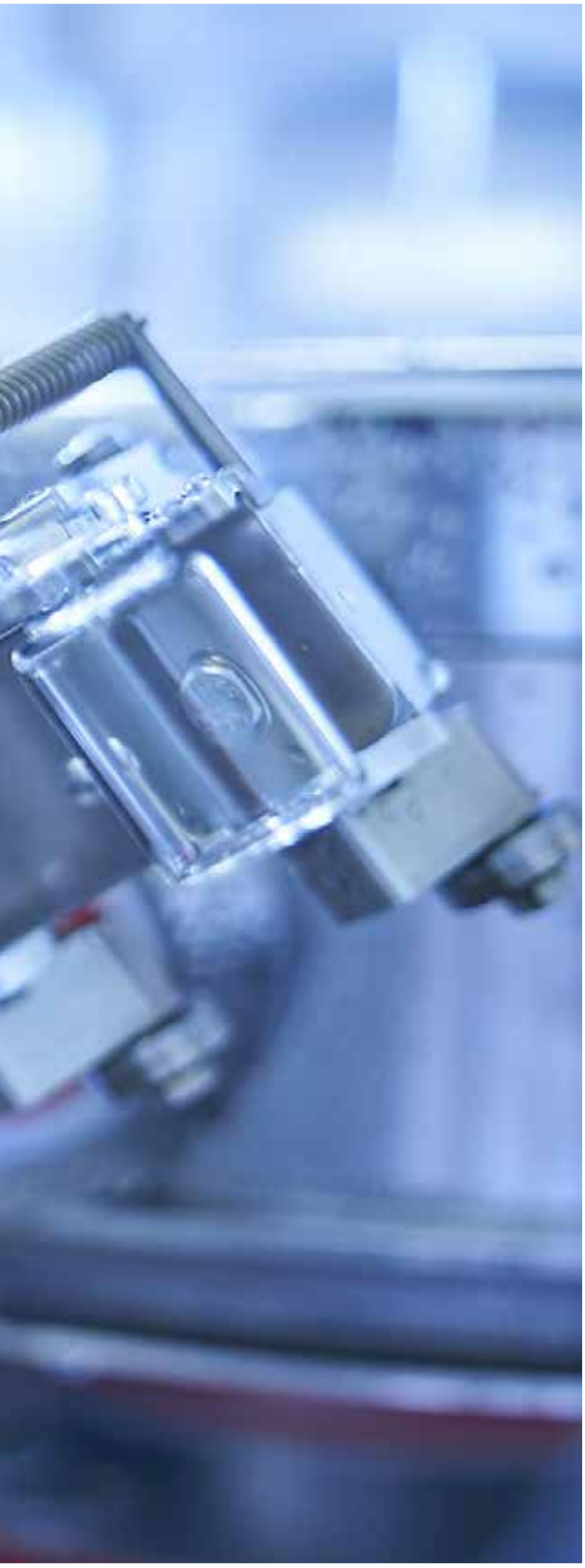
Grünwald, 12 April 2019

Dr. Hans-Georg Feldmeier
Chief Executive Officer

Stefan Hümer
Chief Financial Officer

Karin Samusch
Chief Business Development Officer

Stefan Grieving
Chief Marketing Officer



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017

Assets EUR thousand	Note	31 December 2018	31 December 2017
Non-current assets			
Intangible assets	4.1	189,935	133,404
Goodwill	4.1	54,622	24,583
Property, plant and equipment	4.2	80,874	56,036
Investments accounted for using the equity method	4.3	3,786	3,513
Equity investments	4.4	382	188
Other non-current financial assets	4.5	3,706	4,419
Deferred tax assets	4.17	39	290
Total non-current assets		**333,343**	**222,433**
Current assets			
Inventories	4.6	116,966	81,685
Trade receivables	4.7	34,124	24,677
Other current financial assets	4.8	1,365	78,318
Other current assets	4.8	4,272	1,575
Tax assets	4.17	1,990	329
Cash and cash equivalents	4.9	212,520	6,286
Total current assets		**371,238**	**192,870**
Total assets		**704,581**	**415,303**

Equity and liabilities EUR thousand	Note	31 December 2018	31 December 2017
Equity			
Issued capital	4.10	53,840	120
Capital reserves	4.10	100,790	250
Retained earnings	4.10	100,993	25,669
Other reserves	4.10	(3,173)	(2,234)
Contributions in kind not yet registered	4.10	-	49,880
Equity attributable to owners of parent		**252,449**	**73,685**
Non-controlling interests		3,636	-
Total equity		**256,085**	**73,685**
Non-current liabilities			
Provisions for employee benefits	4.11	50,726	13,033
Non-current financial liabilities	4.13	232,743	222,483
Other non-current financial liabilities	4.15	3,395	4,476
Other non-current liabilities	4.15	10,783	10,024
Deferred tax liabilities	4.17	4,452	11,026
Total non-current liabilities		**302,098**	**261,042**
Current liabilities			
Other provisions	4.12	8,586	7,017
Current financial liabilities	4.13	71,577	32,264
Trade payables	4.14	28,181	23,367
Other current financial liabilities	4.16	6	5,592
Other current liabilities	4.16	15,016	9,025
Tax liabilities	4.17	23,032	3,311
Total current liabilities		**146,398**	**80,576**
Total equity and liabilities		**704,581**	**415,303**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 2018 AND 2017 FINANCIAL YEARS

EUR thousand	Note	2018	2017
Revenue	5.1	572,424	467,117
Change in inventories	4.6	4,264	180
Own work capitalised	4.1	10,200	10,487
Other operating income	5.2	7,767	6,752
Cost of materials	4.6	(287,124)	(256,311)
Personnel expenses	5.3	(92,257)	(64,124)
Depreciation and amortisation	4.1, 4.2	(30,327)	(16,487)
Other operating expenses	5.4	(77,438)	(55,498)
Operating result		**107,509**	**92,116**
Share of profit/loss of companies accounted for using the equity method, after tax	4.3	1,796	1,641
Financial income	5.5	3,949	8,392
Financial expenses	5.5	(9,018)	(14,119)
Financial result		**(3,272)**	**(4,086)**
Earnings before taxes		**104,237**	**88,030**
Income tax expenses	4.17	(29,011)	(10,286)
Profit or loss for the period		**75,226**	**77,744**
Profit or loss transferred in accordance with profit or loss transfer agreements		-	(57,136)
Profit or loss for the period after profit or loss transfer		**75,226**	**20,608**
Other comprehensive income not reclassified to profit or loss in subsequent periods:			
Actuarial gains/losses from remeasurement of defined benefit pension plans	4.11	(1,153)	275
Deferred taxes relating to items not subject to reclassification	4.17	(367)	(41)
Other comprehensive income which may be reclassified to profit or loss in subsequent periods:			
Foreign operations - currency translation differences	2.6	581	(1,517)
Other comprehensive income, after tax		**(939)**	**(1,283)**
Total comprehensive income for the period after transfer of profit or loss		**74,287**	**19,325**

EUR thousand	Note	2018	2017
Profit or loss for the period attributable to			
Owners of the parent		75,323	77,744
Non-controlling interests		(97)	-
		75,226	**77,744**
Total comprehensive income for the period after transfer of profit or loss attributable to			
Owners of the parent		74,383	19,325
Non-controlling interests		(97)	-
		74,287	**19,325**
Earnings per share			
Basic (= diluted) earnings per share (EUR)	5.6	**1.41**	**1.56**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 2018 AND 2017 FINANCIAL YEARS

EUR thousand	Note	2018	2017
Profit or loss for the period before profit or loss transfer		75,226	77,744
Depreciation and amortisation (reversals of depreciation and amortisation) of fixed assets	4.1, 4.2	30,326	16,187
(Increase)/decrease in working capital (assets)	4.5, 4.6, 4.7, 4.8	47,646	(6,207)
Increase/(decrease) in working capital (liabilities)	4.12, 4.14, 4.15, 4.16	27,298	(8,620)
Increase/(decrease) in provisions for employee benefits	4.11	(169)	58
Other non-cash items		664	75
Share of profit/loss of companies accounted for using the equity method, after tax		(1,796)	(1,641)
(Gain)/loss on disposal of non-current assets	4.1, 4.2	12	124
Interest expense/(income)	5.5	4,200	5,401
Changes in deferred tax assets	4.17	(796)	5,551
Income tax payments	4.17	(23,482)	(1,936)
Net cash flows from operating activities		**159,128**	**86,736**
Proceeds from the disposal of intangible assets and property, plant and equipment	4.1, 4.2	540	508
Business combinations, less cash	2.7	(93,059)	(13,715)
Proceeds from excess purchase price payments in the context of business combinations		7,195	-
Payments for investments in intangible assets and property, plant and equipment	4.1, 4.2	(25,973)	(74,715)
Payments for investments in financial assets	4.4	(211)	(35)
Dividends from companies accounted for using the equity method	4.3	1,524	1,325
Interest received	5.5	-	1,772
Cash flows from investing activities		**(109,983)**	**(84,860)**

EUR thousand	Note	2018	2017
Proceeds from the issue of shares	4.10	107,520	120
Transaction costs in connection with the issue of shares		(3,083)	(57)
Payments of profit distributions in accordance with profit or loss transfer agreements		-	(77,587)
Payment for acquisitions of non-controlling interests	4.10	-	(6,559)
Proceeds from borrowings	4.13	155,000	150,000
Repayments of borrowings	4.13	(98,101)	(66,580)
Repayment of finance lease liabilities	8.2 a)	(177)	(140)
Proceeds from reimbursements of interest paid		9,311	-
Interest paid	5.5	(6,020)	(7,173)
Cash flows from financing activities		**164,449**	**(7,976)**
Net increase/decrease in cash, cash equivalents and bank overdrafts	4.9, 4.13	**213,594**	**(6,100)**
Cash, cash equivalents and bank overdrafts as at 1 January	4.9, 4.13	(7,204)	(1,051)
Effect of exchange rate changes on cash and cash equivalents		49	(53)
Cash, cash equivalents and bank overdrafts as at 31 December		**206,439**	**(7,204)**
Bank overdrafts as at 1 January	4.13	(13,489)	(4,867)
Bank overdrafts as at 31 December	4.13	(6,082)	(13,490)
Cash and cash equivalents as at 31 December		**212,520**	**6,286**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 2018 AND 2017 FINANCIAL YEARS

		Attributable to owners of the parent	
EUR thousand	**Note**	**Issued capital**	**Capital reserves**
As at 1 January 2017	4.10	**1,342**	**250**
Profit or loss for the period, after profit or loss transfer		-	-
Other comprehensive income, after tax		-	-
Total comprehensive income, after profit or loss transfer		**-**	**-**
Issue of shares	4.10	120	-
Reduction of legal reserves		-	-
Acquisition of subsidiary with non-controlling interests	2.5	-	-
Acquisition of non-controlling interests without change of control	2.5	-	-
Adjustments due to reorganisation	4.10	(1,342)	-
Reclassifications		-	-
As at 31 December 2017	4.10	**120**	**250**
As at 1 January 2018	4.10	**120**	**250**
Profit or loss for the period, after profit or loss transfer		-	-
Other comprehensive income, after tax		-	-
Total comprehensive income, after profit or loss transfer		**-**	**-**
Issue of shares	4.10	3,840	103,680
Reduction of legal reserves		-	-
Transaction costs	4.10	-	(3,140)
Acquisition of subsidiary with non-controlling interests	2.5	-	-
Acquisition of non-controlling interests without change of control	2.5	-	-
Adjustments due to reorganisation	4.10	-	-
Reclassifications		49,880	-
As at 31 December 2018	4.10	**53,840**	**100,790**

Attributable to owners of the parent					
Retained earnings	Other reserves	Contributions in kind not yet registered	Total	Non-controlling interests	Total equity
56,274	**(951)**	**-**	**56,915**	**3,891**	**60,806**
20,608	-	-	20,608	-	20,608
-	(1,283)	-	(1,283)	-	(1,283)
20,608	**(1,283)**	**-**	**19,325**	**-**	**19,325**
-	-	-	120	-	120
(7)	-	-	(7)	-	(7)
-	-	-	-	-	-
(2,668)	-	-	(2,668)	(3,891)	(6,559)
(48,538)	-	49,880	-	-	-
-	-	-	-	-	-
25,669	**(2,234)**	**49,880**	**73,685**	**-**	**73,685**
25,669	**(2,234)**	**49,880**	**73,685**	**-**	**73,685**
75,323	-	-	75,323	(97)	75,226
-	(939)	-	(939)	-	(939)
75,323	**(939)**	**-**	**74,383**	**(97)**	**74,287**
-	-	-	107,520	-	107,520
-	-	-	-	-	-
-	-	-	(3,140)	-	(3,140)
-	-	-	-	3,732	3,732
-	-	-	-	-	-
-	-	-	-	-	-
-	-	(49,880)	-	-	-
100,992	**(3,173)**	**-**	**252,449**	**3,636**	**256,085**

CONSOLIDATED NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DERMAPHARM HOLDING SE

1. Corporate information

Dermapharm Holding SE (hereafter also referred to as the "Company") as the parent company of the Dermapharm Group (hereafter referred to as "Dermapharm" or the "Group"), is a European company (societas Europaea, "SE") with its primary activities in the healthcare and pharmaceuticals business in Germany, Switzerland, Austria and other countries, particularly in generics, high-quality dermatological and allergic medical products.

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

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

With effect from 31 December 2017, Themis Beteiligungs-AG contributed and transferred all shares of Dermapharm AG to Dermapharm Holding SE. This transaction was entered into the commercial register on 4 January 2018. It did not constitute a business combination within the meaning of IFRS 3, but rather a reorganisation. Accordingly, the assets and liabilities of Dermapharm AG and its subsidiaries were not remeasured.

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

These consolidated financial statements as at 31 December 2018 and the combined Group management report for financial year 2018 were approved for publication and submission to the Supervisory Board by the Management Board on 12 April 2019.

2. Significant accounting policies and changes

2.1 Basis of preparation

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

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

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

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

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

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

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

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

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

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

Dermapharm has applied all standards and interpretations (including amendments) as adopted by the EU, which are mandatory as at 31 December 2018, in these consolidated financial statements.

In financial year 2018, the following Standards and Interpretations, which have been endorsed by the EU, were applied in the consolidated financial statements for the first time:

Standard/ Interpretation	Issued by the IASB	First-time application	Endorsed by the EU	Name
IFRS 9	24 July 2014	1 January 2018	22 November 2016	Financial Instruments
IFRS 15	11 September 2015	1 January 2018	22 September 2016	Revenue from Contracts with Customers
IFRS 15	12 April 2016	1 January 2018	31 October 2017	Clarifications to IFRS 15: Revenue from Contracts with Customers

Other pronouncements issued by the IASB that took effect for the first time in financial year 2018 did not have any material effect on the consolidated financial statements.

The impacts of the amendments and improvements on Dermapharm's consolidated financial statements are as follows:

IFRS 9 – Financial Instruments

IFRS 9 sets forth the requirements for the recognition and measurement of financial assets, financial liabilities as well as some contracts for the purchase or sale of non-financial items. This standard supersedes IAS 39 "Financial Instruments: Recognition and Measurement".

Classification – financial assets

IFRS 9 contains a new classification and measurement approach for financial assets, which reflects the business model in connection with which the assets are held, as well as the characteristics of their cash flows. The Standard contains three important classification categories for financial assets: measured at amortised cost (AC), measured at the fair value with remeasurement gains or losses in profit or loss (FVTPL), and measured at fair value with remeasurement gains or losses through other comprehensive income (FVOCI). This classification replaces the existing categories in IAS 39 (held-to-maturity, loans and receivables, and available for sale).

Under IFRS 9, derivatives that are embedded in host contracts in which the underlying is a financial asset within the scope of the standard are not accounted for separately; rather, the classification criteria set out in the new Standard are applied to the entire hybrid contract. The new classification requirements generally have no effect on how trade receivables measured at amortised cost are accounted for. In accordance with IFRS 9, equity instruments must be recognised at fair value through profit or loss. For equity instruments that are not held for trading, an entity may by way of exception make the irrevocable election at initial recognition to measure them at fair value through other comprehensive income (FVOCI), whereby only income from dividends is recognised in profit or loss. Dermapharm exercises this option and classifies equity instruments in the form of equity investments in other entities at fair value through other comprehensive income. However, due to their immateriality, existing equity investments as at the reporting date are not measured at fair value but at amortised cost.

Impairments – financial assets and contract assets

IFRS 9 replaces the "incurred loss" model of IAS 39 with a forward-looking expected credit losses model. The new impairment model must be applied to financial assets that are measured at amortised cost or at FVOCI – with the exception of dividend securities held as financial investments and contract assets.

Trade receivables as well as other receivables, including contract assets

IFRS 9 provides that an expected loss must be recognised for trade receivables already upon initial recognition. Dermapharm has determined the calculation of expected credit losses with respect to the ageing structure (days overdue) of the receivables. In light of the extremely small number of defaults in the past, there was no significant increase in recognised write-downs as compared to the write-downs recognised under IAS 39. For reasons of immateriality, the write-downs identified as at the transition date were not recognised.

Cash and cash equivalents

The cash and cash equivalents are callable on demand. Based on the ratings available and the related probability of default for the banks at which there are bank balances, no write-downs were recognised for these assets as at the transition date or over the remaining course of the financial year.

Classification — financial liabilities

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. The change in fair value that is attributable to a change in the credit risk of the liability will be presented in other comprehensive income in accordance with the new Standard. The remaining change in the fair value will be presented in profit or loss. Dermapharm's assessment showed no material impacts with regard to the classification of financial liabilities as at 1 January 2018.

Hedge accounting

As the Group does not apply any hedge accounting, the revised requirements did not have any impact.

Transitional provisions

Dermapharm exercises the option not to adjust comparative figures for previous periods with respect to the changes in classification and measurement (including of impairments). Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 were generally recognised in the retained earnings and other reserves as at 1 January 2018. However, as the following table demonstrates, there were no changes to equity as at 1 January 2018.

1 January 2018	Classification and carrying amount in accordance with IAS 39			
EUR thousand	**Loans and receivables**	**Available for sale**	**Held for trading**	**Other financial liabilities**
Assets				
Other financial assets	78,835	-	3,902	-
of which derivatives	-	-	*3,902*	-
of which insurance	*523*	-	-	-
of which other receivables	*78,312*	-	-	-
Equity investments	-	188	-	-
Trade receivables	24,677	-	-	-
Cash and cash equivalents	6,286	-	-	-
Liabilities				
Financial liabilities	-	-	-	254,747
of which bank loans	-	-	-	*152,003*
of which promissory note loans	-	-	-	*81,857*
of which participation rights	-	-	-	*7,127*
of which bank overdrafts	-	-	-	*13,489*
of which lease liabilities in accordance with IAS 17	-	-	-	*271*
Other financial liabilities	-	-	4,596	5,472
of which derivatives	-	-	*4,596*	-
of which other liabilities	-	-	-	*5,472*
Trade payables	-	-	-	23,367

Classification and carrying amount in accordance with IFRS 9				
Adjustment upon transition to IFRS 9 (1 January 2018)	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Impact on profit brought forward as at 1 January 2018
-	3,902	-	78,835	-
-	*3,902*	-	-	-
-	-	-	*523*	-
-	-	-	*78,312*	-
-	-	-	188	-
-	-	-	24,677	-
-	-	-	6,286	-
-	-	-	254,747	-
-	-	-	*152,003*	-
-	-	-	*81,857*	-
-	-	-	*7,127*	-
-	-	-	*13,489*	-
-	-	-	*271*	-
-	4,596	-	5,472	-
-	*4,596*	-	-	-
-	-	-	*5,472*	-
-	-	-	23,367	-

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 lays down a comprehensive framework for determining whether, in what amount, and when revenues are recognised. It replaces existing guidelines for the recognition of revenue, including IAS 18 "Revenues", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs". In contrast to the previously applicable requirements, the new standard provides for a single, principles based five-step model to be applied to all contracts with customers and governs the amount as well as the timing of revenue recognition. In accordance with IFRS 15, an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good to service (i.e., an asset) to a customer. The standard also stipulates numerous other detailed requirements and additional disclosure requirements.

Dermapharm applies the modified retrospective method for applying IFRS 15 for the first time, meaning that the figures for the reporting period were stated in accordance with IFRS 15, while the comparative prior-year figures were stated in accordance with IAS 11 and IAS 18. The cumulative effects from the first-time application of the new standard on contracts that had not yet been fully performed as at 1 January 2018 are generally recognised in retained earnings as at 1 January 2018.

Dermapharm reviewed the effects of applying this standard for the first time. Revenue is generated primarily by the sale of products and must be recognised at a point in time. This approach generally matches the previous approach under IAS 18. After careful analysis of the existing customer contracts, the Company has concluded that the application of IFRS 15 has no effects on the previous accounting policy, the presentation and composition of the items in the statement of financial position and no effect equity as at 1 January 2018. However, additional disclosures on revenue are required in connection with the first-time application of IFRS 15.

2.3 Published Standards and Interpretations that are not yet mandatory

Standard/ Interpretation	Issued by the IASB	First-time application	Endorsed by the EU	Name
IAS 28	12 October 2017	1 January 2019	8 February 2019	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
IFRS 9	12 October 2017	1 January 2019	22 March 2018	Amendments to IFRS 9: Financial Assets With a Negative Prepayment Penalty
IFRS 16	13 January 2016	1 January 2019	31 October 2017	Leases
IFRS 17	18 May 2017	1 January 2021	Pending	Insurance Contracts
IFRIC 23	7 June 2017	1 January 2019	23 October 2018	IFRIC Interpretation 23: Uncertainty over Income Tax Treatments
DIV	12 December 2017	1 January 2019	14 March 2019	Annual improvements of IFRS (2015-2017 cycle)
IAS 19	7 February 2018	1 January 2019	13 March 2019	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
DIV	29 March 2018	1 January 2020	Pending	Amendments to References to the Conceptual Framework in IFRS Standards
IFRS 3	22 October 2018	1 January 2020	Pending	Business Combinations
DIV	31 October 2018	1 January 2020	Pending	Amendments to IAS 1 and IAS 8: Definition of Material

Dermapharm intends to implement these standards when they enter into force in the EU. Below, only those Standards and Interpretations are discussed which may be of relevance for Dermapharm:

IFRS 16 – Leases

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

To date, Dermapharm has primarily concluded operating leases as the lessee. The majority of the Group's leases relates to real estate and motor vehicles. IFRS 16, which now amends the accounting for leases and lessees, no longer allows the lessee to show certain leases as off-balance sheet items in future. Instead, all non-current leases must be recognised in the form of an asset (for the right-of-use asset) and a financial liability (for the payment obligation). However, there is the option to forego recognising a right-of-use asset and the lease liability for leases with terms of less than twelve months (short-term leases) and leases for low-value assets. Dermapharm intends to exercise this option.

IFRS 16 applies to financial years beginning on or after 1 January 2019. Early application is permissible if IFRS 15 is already being applied. Dermapharm will apply the new standard for the first time in the financial year beginning on 1 January 2019. In accordance with the transition provisions, it will use the modified retrospective method and will thus not restate the prior-year figures. The cumulative transition effects will be reported under retained earnings.

Due to the accounting treatment of assets and liabilities in the lessee's statement of financial position under IFRS 16, an increase in total assets is expected at the time of initial application. Based on the results of the review presently available, the Group expects to recognise EUR 10,106 thousand in right-of-use assets and EUR 10,106 thousand in lease liabilities; the Company has elected to apply the practical expedient upon transition for determining the right-of-use assets. The Company has decided not to apply the practical expedients in connection with the modified retrospective method for transitioning to the standard for the first time. Due to the changes under IFRS 16, in future amortisation and interest costs will be recognised in the income statement in lieu of lease expenses; this is expected to have a correspondingly positive impact on EBITDA. The standard also has an impact on the nature and scope of the disclosures in the notes.

2.4 Changes in accounting policies

There were no changes to accounting policies with significant consequences for the presentation of Dermapharm's financial position, financial performance and cash flows in financial year 2018.

2.5 Consolidation principles and group of consolidated companies

Consolidation principles

Aside from the parent company, Dermapharm includes all material subsidiaries over which it exercises control within the meaning of IFRS 10 in its consolidated financial statements. According to IFRS 10, 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 and which are not subsidiaries or joint ventures. Dermapharm is generally assumed to exercise significant influence if it directly or indirectly holds between 20 % and 50 % of voting rights in a company. Such equity investments are included in the consolidated financial statements using the equity method.

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

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

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

Group of consolidated companies

The table below shows the composition of the Group as at 31 December 2018:

	31 December 2018		31 December 2017	
Company name, registered office	**Interest held directly by parent**	**Interest held by subsidiary**	**Interest held directly by parent**	**Interest held by subsidiary**
Fully consolidated subsidiaries				
Dermapharm AG, Grünwald	100 %	-	100 %	-
mibe GmbH Arzneimittel, Brehna	-	100 %	-	100 %
mibe Vertrieb GmbH, Grünwald	-	100 %	-	100 %
axicorp GmbH, Friedrichsdorf	-	100 %	-	100 %
Anton Hübner GmbH & Co. KG, Ehrenkirchen	-	100 %	-	100 %
Hübner Naturarzneimittel GmbH, Ehrenkirchen	-	100 %	-	100 %
Bio-Diät-Berlin GmbH, Berlin	-	100 %	-	100 %
Dermapharm GmbH, Vienna, Austria	-	100 %	-	100 %
Dermapharm AG, Hünenberg, Switzerland	-	100 %	-	100 %
Sun-Farm Sp. z o.o, Warsaw, Poland	-	100 %	-	100 %
Farmal d.d., Ludbreg, Croatia	-	100 %	-	100 %
mibe Pharmaceuticals d.o.o, Ludbreg, Croatia	-	100 %	-	100 %
acis Arzneimittel GmbH, Grünwald	-	100 %	-	100 %
axicorp Pharma GmbH, Friedrichsdorf	-	100 %	-	100 %
Podolux GmbH, Friedrichsdorf	-	100 %	-	100 %
mibe Logistik & Service GmbH & Co. KG, Brehna	-	100 %	-	100 %
Kräuter Kühne GmbH, Berlin	-	100 %	-	100 %
axicorp Pharma B.V., Amsterdam, Netherlands	-	100 %	-	100 %
axicorp Aps, Hellerup, Denmark	-	100 %	-	100 %

Company name, registered office	31 December 2018 Interest held directly by parent	31 December 2018 Interest held by subsidiary	31 December 2017 Interest held directly by parent	31 December 2017 Interest held by subsidiary
remedix GmbH, Friedrichsdorf	-	100 %	-	100 %
Melasan GmbH, Salzburg, Austria	-	100 %	-	100 %
Farmal BH d.o.o, Kiseljak, Bosnia and Herzegovina	-	100 %	-	100 %
Aktival d.o.o, Ludbreg, Croatia	-	-	-	100 %
mibeTec GmbH (formerly: DermaTec GmbH), Brehna	-	100 %	-	-
Trommsdorff GmbH & Co. KG, Alsdorf	-	100 %	-	-
Cl. Lageman GmbH, Alsdorf	-	100 %	-	-
Strathmann GmbH & Co. KG, Hamburg	-	100 %	-	-
Biokirch GmbH, Seevetal	-	100 %	-	-
Strathmann Service GmbH, Hamburg	-	100 %	-	-
BLBR GmbH, Grünwald	-	50,98 %	-	-
mibe Pharma UK Ltd., London, UK		100 %	-	-
mibe Pharma Italia Srl., Bolzano, Italy	-	100 %	-	-

Company name, registered office	31 December 2018 Interest held directly by parent	31 December 2018 Interest held by subsidiary	31 December 2017 Interest held directly by parent	31 December 2017 Interest held by subsidiary
Non-consolidated companies				
Anton Hübner Verwaltungsgesellschaft mbH, Ehrenkirchen	-	100 %	-	100 %
mibeTec GmbH (formerly: DermaTec GmbH), Brehna	-	-	-	100 %
Tiroler Nussöl Sonnenkosmetik GmbH, Kitzbühel, Austria	-	100 %	-	100 %
mibe Ukraine LLC., Kiev, Ukraine	-	100 %	-	100 %
mibe Pharma UK Ltd., London, UK	-	-	-	100 %
mibeTec US, Inc., Dover, USA	-	100 %	-	-
Associates				
Hasan Dermapharm Co., Ltd., Binh Duong Province, Vietnam	-	30 %	-	30 %
Gynial GmbH, Vienna, Austria	-	25.1 %	-	25,1 %
Gynial AG, Hünenberg, Switzerland	-	40 %	-	40 %
Other equity investments				
Hasan Dermapharm JV Co., Ltd., Binh Duong Province, Vietnam	-	5 %	-	5 %

Changes to the scope of consolidation

mibeTec GmbH

On 26 October 2017, DermaTec GmbH was founded with its registered office in Brehna. The company was renamed mibeTec GmbH on 11 July 2018. The object of the company is the research, development, manufacture and sale of food products, nutritional supplements, body care products, cosmetics and medical products, in particular technical medical products. mibeTec GmbH is a wholly owned subsidiary of Dermapharm AG. mibeTec GmbH commenced operations in the first half of 2018 and was therefore included in the consolidated financial statements on 30 June 2018.

mibe Pharma UK Ltd.

On 27 October 2017, mibe Pharma UK Ltd. was founded with its registered office in London, United Kingdom. The object of the company is the operation of logistics and other services. mibe Pharma UK Ltd. is a wholly owned subsidiary of Dermapharm AG. On 31 December 2018, the company was included in the consolidated financial statements for the first time.

Trommsdorff

As at the 23 January 2018 closing date, Dermapharm AG acquired all the interests in Trommsdorff GmbH & Co. KG and its sole general partner, CI. Lageman GmbH (jointly referred to as "Trommsdorff"). The object of the company is the manufacture and sale of 23 different prescription pharmaceuticals and OTC products. On 31 March 2018, the companies were included in the consolidated financial statements for the first time. For additional details about this acquisition, please see note 2.7.

Strathmann

As at the 1 January 2018 closing date, Dermapharm AG acquired the shares and limited partners' interests in Strathmann Service GmbH in Hamburg, Strathmann GmbH & Co. KG in Hamburg, and Biokirch GmbH in Seevetal (jointly referred to as "Strathmann"). Strathmann makes and distributes a broad range of products, which mainly include OTC products as well as branded prescription pharmaceuticals. On 31 March 2018, the companies were included in the consolidated financial statements for the first time. For additional details about this acquisition, please see note 2.7.

BLBR GmbH

With effect from 23 Feburary 2018, Dermapharm AG acquired 50.98 % of the shares in BLBR GmbH. The object of the company is the development, manufacture, sale, marketing and brokerage of products and services on the secondary healthcare market. This includes non-pharmacy-only drugs, nutritional supplements, body care products, cosmetics and technical medical devices, provided these do not require governmental approval. On 30 September 2018, the company was included in the consolidated financial statements for the first time. For additional details about this acquisition, please see note 2.7.

mibe Pharma Italia Srl.

On 12 February 2018, mibe Pharma Italia Srl., with its registered office in Bolzano, Italy, was formed. The object of the company is the wholesale trading of pharmaceuticals and cosmetics, the licensing of products and/or the sale of pharmaceuticals and cosmetics and consulting for other companies in the aforementioned areas. mibe Pharma Italia Srl. is a wholly owned subsidiary of Dermapharm AG. On 31 December 2018, the company was included in the consolidated financial statements for the first time.

mibeTec US. Inc.

On 9 August 2018, mibeTec US, Inc., with its registered office in Dover, United States, was formed. The company has not been consolidated as at 31 December 2018 because it has not yet commenced operations.

Aktival d.o.o

Aktival d.o.o was merged with Farmal d.d. with effect from 1 October 2018.

2.6 Currency translation

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

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

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

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

Country	Currency	Average rate		Closing rate	
	EUR 1 =	2018	2017	31 December 2018	31 December 2017
Switzerland	CHF	1.1553	1.1115	1.1269	1.1696
Croatia	HRK	7.4237	7.4721	7.4332	7.4677
Poland	PLN	4.2633	4.2607	4.3069	4.1796
Vietnam	VDN	27,271.2915	25,927.0101	26,561.9000	27,284.4000
UK	GBP	0.8851	-	0.9017	-

2.7 Business combinations

During the period from 1 January 2018 to 31 December 2018, the Group concluded the following business combinations:

Trommsdorff

As at the 23 January 2018 closing date, Dermapharm AG acquired all the interests in Trommsdorff GmbH & Co. KG and its sole general partner, CI. Lageman Gesellschaft mit beschränkter Haftung (jointly referred to as "Trommsdorff"). Trommsdorff produces and distributes 23 different prescription pharmaceuticals and OTC products, specifically Keltican® forte, a dietary product used to treat back pain and Tromcardin® complex, which combines certain minerals and vitamins to treat cardiac arrhythmia. The transaction constituted a business combination as defined under IFRS 3.

The acquisition date under the purchase agreement is 31 December 2017; therefore, the acquisition took economic effect as at that date. However, the company cannot be included in the consolidated financial statements for the first time until the date on which the acquirer obtains control of the acquiree (IFRS 3); the date on which the transaction took economic effect is thus irrelevant for these purposes. Since conditions precedent under the purchase agreement had not yet been satisfied as at 31 December 2017, Dermapharm had not yet obtained control of Trommsdorff on this date within the meaning of IFRS 3. Dermapharm obtained control of Trommsdorff on 23 January 2018 after obtaining approval from anti-trust authorities, thus satisfying the final condition precedent. Therefore, 23 January 2018 is deemed to be the acquisition date in accordance with IFRS 3.8. As a practical expedient, 1 February 2018 was therefore selected as the date to include the company in the consolidated financial statements for the first time.

Factoring in the negotiated escalation clauses, the purchase price for the interests in Trommsdorff amounted to EUR 102,682 thousand. This includes a EUR 24,145 thousand loan payable to the acquired company by the former partner, resulting in a purchase price of EUR 78,537 thousand to be paid in cash. As a purchase price payment of EUR 85,519 thousand had already been made to the former partner in January 2018, Dermapharm AG was reimbursed EUR 6,982 thousand in the second quarter of 2018 in accordance with the negotiated escalation clauses.

The fair values of the assets and liabilities (in accordance with IFRS 3) were as follows at the acquisition date, 1 February 2018:

EUR thousand	**1 February 2018**
Cash	78,537
Loan liability assumed from the former shareholder	24,145
Total consideration transferred	102,682

Identified assets and liabilities	**Fair value**
Intangible assets	55,125
of which identified in purchase price allocation	*54,743*
Property, plant and equipment	13,603
of which identified in purchase price allocation	*3,673*
Inventories	12,105
of which identified in purchase price allocation	*2,902*
Trade receivables	2,935
Receivables from affiliates	24,145
Other current assets	2,062
Cash and cash equivalents	17,432
Deferred tax assets	7,201
Provisions for pensions	(36,412)
Other provisions	(1,354)
Trade payables	(2,629)
Income tax liabilities	(11,255)
Other current liabilities	(5,153)
Deferred tax liabilities	(605)
Fair value of net assets acquired (100 %)	77,201
Recognised goodwill	25,481

Acquired gross contractual amounts receivable amount to EUR 2,935 thousand, none of which were deemed uncollectable as at the acquisition date. The gross amount corresponds to the fair value because the remaining term of the receivables is less than one year.

Comparing the consideration transferred for the interests with the identified fair value of the assets and liabilities (EUR 77,201 thousand) resulted in goodwill of EUR 25,481 thousand. Factors giving rise to this goodwill relate to expected synergies from the combined business activities and other intangible assets that cannot be reported separately, such as the combined workforce.

The tax-deductible goodwill amounts to EUR 11,955 thousand.

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

Identified assets and liabilities at the reporting date	Fair value (EUR '000)	Valuation technique	Useful life	Cost of capital
Trademark - Keltican	28,740	Multi-period excess earnings	20 years	9.59 %
Trademark - Tromcardin	19,247	Multi-period excess earnings	20 years	9.59 %
Trademark - Trommsdorff	3,972	Relief from royalty	15 years	9.46 %
Trademark portfolio - OTC	845	Multi-period excess earnings	15 years	9.46 %
Trademark portfolio - RX	1,939	Multi-period excess earnings	15 years	9.46 %
Land (remeasurement)	2,219	Index method	Indefinite	n/a
Buildings (remeasurement)	(1,196)	Index method	16 years	n/a
Property, plant and equipment (remeasurement)	2,650	Depreciated replacement cost	7 years	n/a
Inventories (remeasurement)	2,902	Market value model	n/a	n/a

The former partner of Trommsdorff was Grupo Ferrer Internacional, S.A.

Trommsdorff contributed revenue of EUR 58,972 thousand to consolidated revenue for the period from 1 February 2018 to 31 December 2018. The positive effect on the Group's EBITDA amounted to EUR 17,713 thousand.

Had 1 January been applied as the date on which the Trommsdorff acquisition took economic effect, the total revenue contribution from the acquisition would have amounted to EUR 62,386 thousand for the period from 1 January 2018 to 31 December 2018. The positive contribution to the Group's EBITDA would have amounted to EUR 18,807 thousand.

Strathmann

On 20 December 2017, Dermapharm AG entered into a purchase agreement with the seller Dr. Detlef Strathmann Verwaltungs GmbH & Co. KG to acquire the shares and limited partners' interests in Strathmann Service GmbH in Hamburg, Strathmann GmbH & Co. KG in Hamburg, and Biokirch GmbH in Seevetal (jointly referred to as "Strathmann"). The transfer of the shares and limited partners' interests was subject to conditions precedent, which were satisfied on 2 January 2018. Strathmann produces and distributes a broad range of products, primarily including OTC products and branded prescription pharmaceuticals which complement Dermapharm's existing portfolio ideally. The transaction constituted a business combination as defined under IFRS 3. As a practical expedient, 1 February 2018 was selected as the date to include the company in the consolidated financial statements for the first time.

Factoring in the negotiated escalation clauses, the purchase price for the interests in Strathmann amounted to EUR 19,704 thousand. This includes the former partner's EUR 3,934 thousand loan receivable from the acquired company, resulting in a purchase price of EUR 23,638 thousand to be paid in cash. As a purchase price payment of EUR 23,850 thousand had already been made to the former partner in January 2018, Dermapharm AG had a reimbursement claim amounting to EUR 212 thousand against the former partner as at the end of the reporting period in accordance with the negotiated escalation clauses, which was settled in Q3 2018.

The fair values of the assets and liabilities (in accordance with IFRS 3) were as follows at the acquisition date, 1 January 2018:

EUR thousand	1 January 2018
Cash	23,638
Loan liability assumed from the former shareholder	(3,934)
Total consideration transferred	19,704

Identified assets and liabilities	Fair value
Intangible assets	9,715
of which identified in purchase price allocation	*9,150*
Property, plant and equipment	5,418
of which identified in purchase price allocation	*1,286*
Inventories	7,742
of which identified in purchase price allocation	*2,374*
Trade receivables	854
Other current assets	210
Cash and cash equivalents	372
Deferred tax assets	1,067
of which deferred taxes on the difference to the tax-deductible goodwill	*1,052*
Provisions for pensions	(296)
Other provisions	(269)
of which identified in purchase price allocation	*(269)*
Trade payables	*(703)*
Liabilities to affiliates	(3,934)
Income tax liabilities	(1,552)
Other current liabilities	(173)
Deferred tax liabilities	(1,244)
of which identified in purchase price allocation	*(1,244)*
Fair value of net assets acquired (100 %)	17,400
Recognised goodwill	2,496

Acquired gross contractual amounts receivable amount to EUR 854 thousand, none of which were deemed uncollectable as at the acquisition date. The gross amount corresponds to the fair value because the remaining term of the receivables is less than one year.

Comparing the consideration transferred for the interests with the identified fair value of the assets and liabilities (EUR 17,400 thousand) resulted in goodwill of EUR 2,496 thousand. Factors giving rise to this goodwill relate to expected synergies from the combined business activities and other intangible assets that cannot be reported separately, such as the combined workforce.

The tax-deductible goodwill amounts to EUR 5,949 thousand.

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

Identified assets and liabilities at the reporting date	Fair value (EUR '000)	Valuation technique	Useful life	Cost of capital
Trademark portfolio	4,559	Relief from royalty	16 years	7.70 %
Wholesale customer relationship	2,258	Multi-period excess earnings	9 years	7.09 %
Pharmacies customer relationship	306	Multi-period excess earnings	6 years	6.65 %
Strakan customer relationship	1,455	Multi-period excess earnings	3 years	6.20 %
Strakan orders on hand	572	Multi-period excess earnings	1 year	6.02 %
Onerous lease	(269)	DCF	3 years	6.20 %
Inventories (remeasurement)	2,374	Market value model	n/a	n/a
Land (remeasurement)	157	Income capitalisation approach	Indefinite	n/a
Buildings (remeasurement)	975	Income capitalisation approach	30 years	n/a
Property, plant and equipment (remeasurement)	154	Depreciated replacement cost	1 year	n/a

Strathmann's former partner was Dr. Detlef Strathmann Verwaltungs GmbH & Co. KG.

Strathmann contributed EUR 23,714 thousand to consolidated revenue for the period from 1 January 2018 to 31 December 2018; the EBITDA contribution amounted to EUR 5,333 thousand over this period.

BLBR

On 23 February 2018, Dermapharm AG acquired 50.98 % of the shares in BLBR GmbH. In addition to contributing EUR 26 thousand to the Company's share capital, Dermapharm must contribute EUR 5,974 thousand to the Company's unallocated capital reserve. Of this amount, EUR 1,974 thousand had already been contributed as at 31 December 2018. The object of the company is the development, manufacture, sale, marketing and brokerage of products and services on the secondary healthcare market. This includes non-pharmacy-only drugs, nutritional supplements, body care products, cosmetics and technical medical devices, provided these do not require governmental approval. The transaction constituted a business combination as defined under IFRS 3. As a practical expedient, 1 March 2018 was selected as the date to include the company in the consolidated financial statements for the first time.

The preliminary fair values of the assets and liabilities (in accordance with IFRS 3) were as follows at the acquisition date, 23 February 2018:

EUR thousand	1 March 2018
Cash	2,000
Capital increase not yet conducted	4,000
Total consideration transferred	6,000

Identified assets and liabilities	Fair value
Intangible assets	2,167
of which identified in purchase price allocation	*2,167*
Other current assets	4,000
Cash and cash equivalents	2,000
Other current liabilities	(29)
Deferred tax liabilities	(525)
of which identified in purchase price allocation	*(525)*
Fair value of net assets acquired (100 %)	7,613
Fair value of net assets acquired (50.98 %)	3,881
Recognised goodwill	2,119

Comparing the consideration transferred for the interests with the identified fair value of the assets and liabilities (EUR 3,881 thousand) resulted in goodwill of EUR 2,119 thousand. Factors giving rise to this goodwill relate to expected synergies from the combined business activities and other intangible assets that cannot be reported separately.

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

Identified assets and liabilities at the reporting date	Fair value (EUR '000)	Valuation technique	Useful life	Cost of capital
Technology	2,167	Multi-period excess earnings	8 years	14.64 %

2.8 Intangible assets

The focus of the business model lies on the development of pharmaceutical compounds which as a rule are no longer patent-protected. In addition, authorisations for such products are purchased. Intangible assets therefore consist in particular of marketing authorisations which Dermapharm either applies for after a development phase or acquires from third parties.

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

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

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

Software, licenses, patents and similar rights

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

This item primarily consists of purchased marketing authorisations held by Dermapharm.

Capitalised development costs

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

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

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

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

Intangible assets acquired in the context of a business combination

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

Goodwill

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

2.9 Property, plant and equipment

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

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

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

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 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.

Depreciation is based primarily on the following estimated useful lives:

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

2.10 Impairments of non-financial assets

Intangible assets which are not subject to amortisation are tested annually for impairment. This includes in particular goodwill and capitalised costs incurred during the development phase of a pharmaceuticals product. Property, plant and equipment and other intangible assets already in use are depreciated and amortised, as well as tested for impairment if there are indications that the assets may have become impaired.

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

The impairment test is conducted using the discounted cash flow (DCF) model. Calculations are based on projections made in budgets prepared by the Management Board and the Supervisory Board. The expected cash flows are discounted using an appropriate interest rate for the relevant market.

In order to synchronise impairment testing with the Group's internal budgeting processes, the date of the annual impairment tests was moved from 31st of October (Impairment test goodwill) respectively 31st of December (Impairment test development projects) to the 30th of September beginning in the 2018 reporting year.

2.11 Financial assets

Recognition and measurement

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

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

Subsequent measurement

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

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

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

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

The equity investments that are not included in Dermapharm's consolidated financial statements are measured at amortised cost less impairment (see also note 2.5).

Derecognition and impairment

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

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

Derivatives are derecognised at the end of the contractual obligation.

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

2.12 Inventories

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

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

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

2.13 Cash and cash equivalents

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

2.14 Financial liabilities

Recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition

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

Offsetting 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, or to realise the assets and settle the liabilities simultaneously.

2.15 Government grants

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

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

2.16 Provisions for employee benefits

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

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

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

2.17 Other provisions

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

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

2.18 Long-term employee benefits

Bonus schemes

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

2.19 Taxes on income and deferred taxes

Taxes on income

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

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

Deferred taxes

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

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

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

2.20 Recognition of income and expenses

Revenue

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

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

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

Other operating income/expenses

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

Interest income/expenses

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

2.21 Earnings per share

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

2.22 Leases

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. Dermapharm does not act as a lessor.

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 recognised in the income statement 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 note 8.2b).

Please refer to note 2.3 for a discussion of the estimated impacts from the application of IFRS 16.

2.23 Derivatives

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

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

2.24 Fair value measurement

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

Financial instruments measured at fair value:

Type	Valuation technique	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value measurement
Available-for-sale equity investments (n/a)	Due to the limited scope of their business activities and resulting immateriality of available-for-sale equity investments, the fair value of those equity investments is assumed to be equal to the carrying amount.	n/a	n/a
Interest rate swaps (level 2)	Swap models: Fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value measurement is subject to a credit/debit valuation adjustment that reflects the credit risk of Dermapharm and the counterparty, which is calculated based on credit spreads.	n/a	n/a
Floors (level 3)	Floor pricing: Fair value is calculated as the present value of the estimated future cash flows based on an adjusted Black 76 model for interest rate derivatives. In order to take the negative interest rate environment into consideration, the standard Black 76 model is enhanced by a shifting parameter for the floor and forward rates. Input data include the relevant observable reference rate curves and the observable forward rates as well as the unobservable parameter, namely the expected volatility which is based on an expert estimate. The fair value measurement is subject to a credit/debit valuation adjustment that reflects the credit risk of Dermapharm and the counterparty, which is calculated based on credit spreads.	Volatility 31 December 2018: 25 % 31 December 2017: 25 %	A decrease in volatility would result in a decrease of the (negative) fair values of the floors. An increase in volatility would result in increased negative fair values of the floors.
Cross-currency 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 Dermapharm and the counter-party, which is calculated based on credit spreads.	n/a	n/a

Financial instruments not measured at fair value:

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

As at 31 December 2018 (31 December 2017: 25 %), volatility of 25 % was assumed for the measurement of the floors. Neither a decrease in volatility of ten percentage points nor an increase in volatility of five percentage points would have had any material impact on the amount of the fair value recognised for financial instruments measured at Level 3 of the fair value hierarchy.

The negative fair values of the financial instruments measured using Level 3 techniques developed as follows:

	Financial liabilities measured at fair value	
EUR thousand	**2018**	**2017**
As at 1 January	**538**	**-**
Transfers from Level 2	-	-
Additions	-	632
Transfers from Level 3	-	-
Change in fair value recognised through profit or loss	26	(94)
As at 31 December	**564**	**538**

3. Estimates and judgements

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

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

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

Business combinations

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

Goodwill impairment test

The Group tests recognised goodwill for impairment at least once annually. The necessary assumptions and estimates are presented in detail in note 4.1. For the carrying amounts of goodwill as at the reporting date, please refer to note 4.1.

Impairment of other assets

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

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

Development costs

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

Taxation

The Group operates in various countries and is required to pay the relevant income taxes in each tax jurisdiction. In order to calculate the income tax provisions and the deferred tax liabilities in the Group, the expected income tax as well as the temporary differences resulting from the different treatment of certain statement of financial position items in accordance with IFRS and their accounting in accordance with tax law must each be determined on the basis of assumptions. If the final taxation imposed deviates from the assumed figures, this has a corresponding effect on current and deferred taxes and thus on Dermapharm's financial position, financial performance and cash flows for the respective period. For more detailed information on the income taxes and deferred taxes, please refer to note 4.17.

Fair value of financial assets and liabilities

Valuation models based on input parameters observable in the market are applied to determine the fair values of derivatives and other financial instruments, for which no market price is available in an active market. The cash flows, which are already fixed or calculated based on the current yield curve using forward rates, are discounted to the measurement date with the discount factors determined based on the yield curve valid on the reporting date. All carrying amounts are shown in note 7.3.

Trade 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 remaining term of up to one year. The carrying amounts less allowances, where applicable, approximate the fair values.

Pensions and other post-employment benefits

The carrying amounts of defined benefit pension plans and other post-employment benefits are based on actuarial valuations. 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 note 4.11.

Other provisions

The estimate of future costs is subject to many uncertainties, including legal uncertainties based on the applicable laws and regulations and with uncertainties regarding to the actual conditions in the different countries and operating locations. In particular, estimates of costs are based on previous experience in similar cases, the conclusions of expert opinions commissioned by Dermapharm, current costs and new developments that have a bearing on the costs. Any changes to these estimates could have an impact on the future profit or loss of the Group.

The expenses for recognising provisions for health insurance discounts are estimated based on the relevant underlying two-year discount agreement and information obtained from a database which tracks the historical volumes of drugs reimbursed by each insurance company. Actual expenses for these discounts may differ from the estimate and revenue would accordingly be higher or lower. The accounting treatment for the discounts and hence the utilisation of provisions for discounts for health insurers is generally expected within the next twelve months. The expenses for recognising these provisions are offset against revenue.

For the carrying amounts of other provisions as at the reporting dates, please refer to note 4.12.

4. Notes to the consolidated statement of financial position

4.1 Intangible assets

Intangible assets changed as follows:

EUR thousand	Goodwill	Software, licenses, patents and similar rights	Capitalised development costs	Total
Cost				
As at 1 January 2018	**45,798**	**189,276**	**42,262**	**277,336**
Exchange differences	-	101	(2)	99
Additions due to business combinations	30,039	76,947	-	106,986
Additions	-	1,898	10,453	12,351
Disposals	-	(2,334)	(513)	(2,846)
Transfers	-	-	-	-
As at 31 December 2018	**75,836**	**265,888**	**52,200**	**393,925**
Amortisation and impairment				
As at 1 January 2018	**21,215**	**91,388**	**6,746**	**119,349**
Exchange differences	-	98	-	98
Additions due to business combinations	-	9,939	-	9,939
Additions (amortisation)	-	15,512	906	16,418
Additions (impairment)	-	1,340	4,872	6,212
Disposals	-	(2,333)	(315)	(2,648)
Transfers	-	-	-	-
As at 31 December 2018	**21,215**	**115,944**	**12,210**	**149,368**
Carrying amounts				
As at 31 December 2017	**24,583**	**97,888**	**35,516**	**157,987**
As at 31 December 2018	**54,622**	**149,944**	**39,990**	**244,557**

EUR thousand	Goodwill	Software, licenses, patents and similar rights	Capitalised development costs	Total
Cost				
As at 1 January 2017	**38,248**	**129,366**	**31,896**	**199,510**
Exchange differences	-	(184)	-	(184)
Additions due to business combinations	7,550	4,749	-	12,299
Additions	-	59,688	10,521	70,209
Disposals	-	(4,410)	(88)	(4,498)
Transfers	-	67	(67)	-
As at 31 December 2017	**45,798**	**189,276**	**42,262**	**277,336**
Amortisation and impairment				
As at 1 January 2017	**21,215**	**85,216**	**6,021**	**112,452**
Exchange differences	-	(214)	-	(214)
Additions (amortisation)	-	10,317	487	10,804
Additions (impairment)	-	-	326	326
Disposals	-	(3,931)	(88)	(4,019)
Transfers	-	-	-	-
As at 31 December 2017	**21,215**	**91,388**	**6,746**	**119,349**
Carrying amounts				
As at 31 December 2016	**17,033**	**44,150**	**25,875**	**87,058**
As at 31 December 2017	**24,583**	**97,888**	**35,516**	**157,987**

Intangible assets consist primarily of purchased assets – including in particular recognised goodwill, customer relationships, orders on hand, trademarks and authorisations – and capitalised costs for current development projects and internally developed authorisations. The changes since the previous year resulted in particular from the Trommsdorff, Strathmann and BLBR acquisitions. The residual useful lives and carrying amounts of significant intangible assets resulting from these acquisitions are presented in the table below; please refer to note 2.7 for additional information on these acquisitions.

31 December 2018	Carrying amount (EUR thousand)	Residual useful life (years)	Origin
Product portfolio	4,273	15	Strathmann acquisition
Wholesale customer relationship	2,007	8	Strathmann acquisition
Strakan customer relationship	970	2	Strathmann acquisition
Trademark - Keltican	27,423	19	Trommsdorff acquisition
Trademark - Tromcardin	18,365	19	Trommsdorff acquisition
Trademark - Trommsdorff	3,729	14	Trommsdorff acquisition
Trademark portfolio – OTC	793	14	Trommsdorff acquisition
Trademark portfolio - RX	1,821	14	Trommsdorff acquisition
Technology (in development)	2,167	-	BLBR acquisition

Goodwill was recognised at a carrying amount of EUR 54,622 thousand as at the reporting date (31 December 2017: EUR 24,583 thousand). During the year under review, goodwill amounting to EUR 25,481 thousand was recognised for Trommsdorff, EUR 2,496 thousand for Strathmann and EUR 2,119 thousand for BLBR.

Amortisation of EUR 16,418 thousand in total was recognised for intangible assets (excl. impairment) during the reporting period (2017: EUR 10,804 thousand). The amortisation taken on capitalised development costs were amounted to EUR 906 thousand (2017: EUR 487 thousand). This related to the portion of capitalised development costs that had already resulted in an approval and will thus be amortised over 15 years. The total carrying amount for capitalised development costs as at 31 December 2018 was EUR 39,990 thousand (31 December 2017: EUR 35,516 thousand). Of that amount, development projects with a carrying amount of EUR 10,800 thousand (31 December 2017: EUR 7,268 thousand) are already in use and the after receiving authorisation. In addition, current development costs of EUR 10,366 thousand were capitalised during financial year 2018 (31 December 2017: EUR 10,521 thousand). For additional information, please see note 2.1.

The useful lives of internally generated intangible assets remained unchanged in financial year 2018.

An impairment charge of EUR 6,212 thousand on capitalised development costs and authorisations was recognised in the reporting period ended 31 December 2018 (31 December 2017: EUR 326 thousand). The impairment charge essentially comprised the derecognition of expired authorisations (EUR 1,340 thousand) and impairment of development projects (EUR 4,872 thousand).

Impairment testing for capitalised development projects and technologies which have not yet been completed

Capitalised projects still in the development phase for which no authorisations have been received and technologies which have not yet been completed are tested annually for impairment, as they are not subject to amortisation. As at 30 September 2018 capitalised development projects with a carrying amount of EUR 33,906 thousand (31 December 2017: EUR 28,247 thousand) and a technology, which has not yet been completed with a carrying amount of EUR 2,167 thousand, were subject to the impairment test.

The recoverable amount of the individual projects was determined by calculating the value in use, which is based on the projected cash flows of the individual development projects. The cash flow projections underlying the calculation were made for a planning period of three years and derived based on management inputs of key parameters for each project and included in an individual business plan. These key parameters include the target market share for the product based on the total market volume, the expected year of market introduction, the total life of the product, the expected EBIT margin and the estimated cost to complete based on the degree of completion as at the measurement date.

As at 30 September 2018, different discount rates after taxes were applied for the first time for impairment testing, which correspond to the discount rates of the respective cash-generating units that are to use the intangible assets going forward. A single peer group was selected for calculating the discount rates. Differences in discount rates resulted from the respective applicable tax rates, risk premiums and terms. The discount rates ranged between 6.81 % and 9.84 %. In the previous year, the underlying discount rate used was the discount rate of mibe Arzneimittel GmbH and amounted to 6.54 %.

Based on these data, the impairment test for the 2018 reporting year results in an impairment for development projects and technologies which have not yet been completed in the amount of EUR 3,477 thousand (31 December 2017: EUR 326 thousand).

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 carrying amounts was calculated. Modified assumptions involved the pre-tax interest rates and EBIT margins applied to the terminal value.

A 1.00 % increase in the interest rates before taxes combined with a decrease in the expected EBIT margin of 2.00 % would have resulted in an additional impairment charge of EUR 6,056 thousand (31 October 2017: EUR 589 thousand).

Goodwill impairment tests

The Management Board monitors and manages the Group's goodwill at the level of the various legal entities. Dermapharm defines all legal entities as cash generating units (CGUs), which are tested for impairment. For this reason, nine CGUs with material goodwill were subjected to impairment tests as at 30 September 2018 (31 December 2017: five).

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

As the management plans indicate that not all of the CGUs had reached a sustainable state as at the measurement date, in particular with respect to revenue growth, the reconciliation to the terminal value was planned within a three-year transition period. The first year of the transition period is characterised by decreasing growth rates while EBITDA margins were kept constant. The growth rates were reduced to the sustainable revenue growth in order to transfer the business plans to a sustainable state until the terminal value phase. The remaining two transition periods were already planned with terminal value assumptions, i.e., with a growth rate of 1.00 % and constant EBITDA margins analogously to the last detailed planning year in each case. Due to discounting effects, recognising the two additional transition periods does not significantly impact the valuations. This state was extrapolated using a long-term growth rate of 1.00 %.

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:

30 September 2018	mibe GmbH Arznei-mittel	acis Arznei-mittel GmbH	Bio-Diät-Berlin GmbH	axicorp GmbH	Mela-san GmbH	Sun-Farm Sp. z o.o.	Strath-mann GmbH & Co. KG	BLBR GmbH	Tromms-dorff GmbH & Co. KG
Budgeted EBITDA margin	38.13 %	38.61 %	27.04 %	4.41 %	23.11 %	29.92 %	25.70 %	35.98 %	29.35 %
Budgeted EBITDA growth	(7.91 %)	(1.79 %)	12.39 %	0.95 %	0.29 %	26.66 %	(9.34 %)	56.97 %	11.33 %
Discount rate	11.21 %	10.55 %	11.36 %	11.23 %	11.42 %	11.27 %	10.08 %	10.28 %	9.73 %
Goodwill (EUR thousand)	1,700	47	7,458	12,766	673	1,848	2,496	2,119	25,481
Value in use (EUR thousand)	531,092	66,059	20,409	109,029	22,506	37,445	24,361	69,434	219,740
Carrying amount (EUR thousand)	127,518	(725)	15,744	51,874	6,901	6,244	23,148	6,372	82,567

31 December 2017	mibe GmbH Arzneimittel	acis Arznei-mittel GmbH	axicorp GmbH	Melasan GmbH	Sun-Farm Sp. z o.o.
Budgeted EBITDA margin	24.11 %	18.72 %	3.62 %	24.10 %	27.12 %
Budgeted EBITDA growth	(6.98 %)	2.71 %	5.21 %	4.14 %	16.76 %
Discount rate	8.85 %	8.40 %	8.89 %	9.22 %	9.37 %
Goodwill (EUR thousand)	1,700	47	12,766	673	1,848
Value in use (EUR thousand)	885,597	44,323	108,617	29,789	43,626
Carrying amount (EUR thousand)	124,487	(449)	42,499	3,777	5,305

The budgeted EBITDA margins are average EBITDA margins between the first and the last detailed planning years.

The results of the impairment tests are based primarily on the management assumptions described. In order to gauge how changes in certain parameters affect the results, the assumptions are subjected to sensitivity analyses. The assumptions relating to the pre-tax interest rates and EBITDA margins applied in the terminal value were tested for sensitivity.

At Strathmann GmbH & Co. KG, this sensitivity analysis indicated that a 1.00 % increase in the pre-tax interest rate and a 3.00 % decrease in the EBITDA margin would have necessitated a EUR 2,179 thousand impairment charge.

This scenario would not result in any impairment charge for the other cash-generating units.

4.2 Property, plant and equipment

Property, plant and equipment changed as follows:

EUR thousand	Land, land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
Cost				
As at 1 January 2018	**52,501**	**34,913**	**19,266**	**106,680**
Exchange differences	24	(10)	3	16
Additions due to business combinations	27,973	11,343	14,085	53,402
Additions	7,325	3,912	2,660	13,896
Disposals	(270)	(638)	(1,561)	(2,468)
Transfers	994	(922)	(72)	-
As at 31 December 2018	**88,546**	**48,597**	**34,381**	**171,524**
Depreciation and impairment				
As at 1 January 2018	**15,359**	**22,216**	**13,069**	**50,644**
Exchange differences	41	(6)	12	46
Additions due to business combinations	16,891	8,726	8,763	34,381
Additions (amortisation)	2,162	2,812	2,721	7,696
Additions (impairment)	-	-	-	-
Disposals	(4)	(555)	(1,556)	(2,115)
Transfers	-	-	-	-
As at 31 December 2018	**34,450**	**33,193**	**23,007**	**90,650**
Carrying amounts				
As at 31 December 2017	**37,142**	**12,697**	**6,197**	**56,036**
As at 31 December 2018	**54,096**	**15,404**	**11,373**	**80,874**

EUR thousand	Land, land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
Cost				
As at 1 January 2017	**49,234**	**32,500**	**17,660**	**99,394**
Exchange differences	10	24	4	38
Additions due to business combinations	2,263	579	439	3,281
Additions	460	2,824	1,222	4,506
Disposals	-	(225)	(314)	(539)
Transfers	534	(789)	255	-
As at 31 December 2017	**52,501**	**34,913**	**19,266**	**106,680**
Depreciation and impairment				
As at 1 January 2017	**13,912**	**20,364**	**11,761**	**46,037**
Exchange differences	(72)	18	(10)	(64)
Additions (depreciation)	1,519	1,922	1,616	5,057
Additions (impairment)	-	-	-	-
Disposals	-	(88)	(298)	(386)
Transfers	-	-	-	-
As at 31 December 2017	**15,359**	**22,216**	**13,069**	**50,644**
Carrying amounts				
As at 31 December 2016	**35,322**	**12,136**	**5,899**	**53,357**
As at 31 December 2017	**37,142**	**12,697**	**6,197**	**56,036**

Property, plant and equipment comprises land, land rights and buildings, technical equipment and machinery as well as other equipment, operating and office equipment.

The carrying amounts for land, land rights and buildings increased in financial year 2018 by EUR 16,956 thousand. This was due primarily to the acquisitions in 2018 of Trommsdorff and Strathmann. Please refer to note 2.7 for further details. These transactions increased the cumulative costs for the land by EUR 2,376 thousand and buildings by EUR 7,750 thousand.

Land and buildings included assets under construction for a logistics centre amounting to EUR 4,644 thousand.

The carrying amounts increased by EUR 2,707 thousand for technical equipment and machinery, and by EUR 5,175 thousand for other equipment, operating and office equipment. The increases in cumulative cost resulted from acquisitions in 2018, which led to a EUR 1,317 thousand increase for equipment and EUR 4,548 thousand for operating and office equipment.

There were no indications of impairment in accordance with IAS 36 at the reporting date or in the previous year.

During the reporting period ended 31 December 2018, depreciation of EUR 7,696 thousand was recognised in the statement of comprehensive income (31 December 2017: EUR 5,057 thousand).

The assets from finance leases, included in "Other equipment, operating and office equipment", increased to EUR 375 thousand (31 December 2017: EUR 280 thousand).

For further details regarding obligations from finance leases, please refer to note 8.2a).

4.3 Investments accounted for using the equity method

Two associates (31 December 2017: two) were recognised in the consolidated financial statements using the equity method.

Company name	Registered office	Shareholding (%)
31 December 2018		
Hasan Dermapharm Co., Ltd.	Binh Duong Province, Vietnam	30.0
Gynial GmbH	Vienna, Austria	25.1
31 December 2017		
Hasan Dermapharm Co., Ltd.	Binh Duong Province, Vietnam	30.0
Gynial GmbH	Vienna, Austria	25.1

Hasan Dermapharm Co., Ltd., Binh Duong Province, Vietnam

In financial year 2007, Dermapharm AG acquired an interest in Hasan Dermapharm Co. Ltd, in which Dermapharm currently holds a 30 % interest. Hasan Dermapharm operates a WHO-GMP certified production plant capable of producing nearly all drugs sold on the Vietnamese market.

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

EUR thousand	31 December 2018	31 December 2017
Shareholding (%)	30.0	30.0
Non-current assets	4,551	4,320
Current assets	8,684	7,931
Non-current liabilities	-	-
Current liabilities	1,311	1,099
Net assets (100 %)	11,924	11,152
Carrying amount of equity investment	**2,373**	**2,261**
Revenue	17,277	16,480
Earnings after tax (100 %)	5,286	5,088
Group's share of total comprehensive income	**1,586**	**1,526**
Closing rate of EUR/VND	26,562	27,284
Average rate of EUR/VND	27,271	25,927

Gynial GmbH, Vienna, Austria

In 2015, Dermapharm GmbH, Vienna, acquired a 25.1 % interest in Gynial GmbH, Vienna. Gynial focuses on the physical health and the well-being of women with an emphasis on prophylactic measures. Gynial is purely a sales company and does not operate any production facilities. The increasing transfer of existing contract manufacturing operations from external suppliers to mibe GmbH Arzneimittel, which already operates a contraceptives manufacturing facility, has resulted in an increase in value-added production.

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

EUR thousand	31 December 2018	31 December 2017
Shareholding (%)	25,1	25.1
Non-current assets	780	341
Current assets	1.720	1,357
Non-current liabilities	-	-
Current liabilities	905	744
Net assets (100 %)	1.595	954
Carrying amount of equity investment	**1.413**	**1,253**
Revenue	5.281	4,854
Earnings after tax (100 %)	840	457
Group's share of total comprehensive income	**211**	**115**

4.4 Equity investments

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

As at 31 December 2018, Dermapharm held 100 % of the shares in Tiroler Nussöl Sonnenkosmetik GmbH, Kitzbühel, Austria, 100 % of shares in mibe Ukraine LLC, Kiev, Ukraine, and 40 % of shares in Gynial AG, Hünenberg, Switzerland. These shares, as well as the other shares mentioned in note 2.5, are not consolidated. Due to the limited scope of their business activities and despite not being included in the consolidated financial statements, this results in a true and fair view of Dermapharm's financial position, financial performance and cash flows. As at 31 December 2018, the shares in unconsolidated subsidiaries and associates, which are not accounted for using the equity method, had a carrying amount of EUR 382 thousand (31 December 2017: EUR 188 thousand). The increase was due primarily to the capital increase at Dermapharm AG, Hünenberg, Switzerland, and Gynial AG, Hünenberg, Switzerland.

Dermapharm does not intend to dispose of these shares.

4.5 Other non-current financial assets

Other non-current financial assets include receivables related to positive fair values of derivatives, capitalised life insurance policies and securities used for pensions.

The positive fair value of the receivable from derivatives recognised result primarily from a claim held by Dermapharm AG against Themis Beteiligungs-AG for compensation for all future payments in relation to two cross-currency swaps which Dermapharm AG concluded with Unicredit Bank in 2008 and 2010. One cross-currency swap matured in 2018, and the other swap will expire in 2020.

The positive fair value of the receivable was EUR 2,628 thousand as at 31 December 2018 (31 December 2017: EUR 3,896 thousand). The corresponding negative fair value of the derivative is recognised in other non-current financial liabilities. Dermapharm AG has filed an action against Unicredit Bank in connection with the cross-currency swaps. For further information, please refer to note 8.2c).

Anton Hübner GmbH & Co. KG has capitalised life insurance policies, which do not qualify as plan assets in accordance with IAS 19 and cannot be offset against future pension obligations. The carrying amount of EUR 393 thousand as at 31 December 2018 (31 December 2017: EUR 424 thousand) is taken from an expert opinion.

In addition, during the financial year, the Group acquired Trommsdorff, which had capitalised a pledged securities account for the purpose of insolvency protection for early partial retirement amounting to EUR 497 thousand.

4.6 Inventories

Inventories break down as follows:

EUR thousand	31 December 2018	31 December 2017
Finished goods and merchandise	53,948	45,759
Raw materials, consumables and supplies	41,686	26,673
Work in progress	19,926	8,674
Prepayments	1,406	579
Inventories	**116,966**	**81,685**

The cost of materials and changes in inventories developed as follows:

EUR thousand	2018	2017
Cost of materials	(287,124)	(256,311)
Change in inventories	4,264	180
Expenses for current period	**(282,860)**	**(256,131)**

In the financial years 2018 and 2017, write-downs of inventories had to be recognised for the destruction of expired finished goods, destruction due to quality shortcomings in raw materials and other defects.

EUR thousand	2018	2017
Finished goods and merchandise, work in progress	3,341	2,631
Raw materials, consumables and supplies	1,613	1,123
Write-downs for current period	**4,954**	**3,754**

No inventories were pledged as securities for liabilities at the end of financial years 2018 and 2017.

4.7 Trade receivables

All trade receivables are due within one year and do not bear interest. Trade receivables are generally due within a payment period of between 30 and 120 days. There are no restrictions of any kind on rights of disposal.

The net balance of trade receivables was as follows:

EUR thousand	31 December 2018	31 December 2017
Trade receivables	34,396	24,953
Valuation allowances	(273)	(276)
Trade receivables	**34,124**	**24,677**

The year-on-year increase in trade receivables is attributable primarily to the successful business combinations.

As at 31 December 2018, trade receivables amounting to EUR 28,766 thousand (31 December 2017: EUR 22,338 thousand) were fully recoverable.

In addition, as at 31 December 2018 there were trade receivables of EUR 5,322 thousand (31 December 2017: EUR 2,282 thousand) which were past due but not impaired. These related to a number of customers for whom there is no recent history of default.

The maturity structure of past-due receivables is as follows:

EUR thousand	31 December 2018	31 December 2017
Less than 1 month	3,236	1,032
1-2 months	555	821
2-3 months	1,192	71
More than 3 months	339	357
Total	**5,322**	**2,282**

Dermapharm in Germany has solvent customers with high credit ratings, and defaults among them are extremely rare. Where receivables are past due, generally installation payments are negotiated which are usually paid.

Therefore, there was only a small amount of past-due and impaired receivables as at the reporting date. These were broken down as follows:

EUR thousand	31 December 2018	31 December 2017
Less than 1 month	-	-
1-2 months	-	-
2-3 months	-	-
More than 3 months	308	333
Total	**308**	**333**

The overdue and impaired receivables presented above have not all been written down in full. Only those receivables are impaired where the customer is already insolvent or has filed for insolvency proceedings.

The allowance account developed as follows:

EUR thousand	2018	2017
As at 1 January	**(276)**	**(239)**
Valuation allowance on receivables	3	(37)
Receivables written off during the year as uncollectible	-	-
As at 31 December	**(273)**	**(276)**

4.8 Other current financial assets and other current assets

The other current assets consisted of the following:

EUR thousand	31 December 2018	31 December 2017
Receivables from related parties	259	77,882
Deposits	6	30
Derivatives	-	6
Miscellaneous	1,101	400
Other current financial assets	**1,365**	**78,318**
Prepaid expenses	1,120	1,060
Deposit on CFP purchase price	765	-
VAT receivables	666	150
Receivables from tax authorities	389	-
Prepayments	290	156
Money in transit	289	1
Receivables from employees	113	50
Miscellaneous	641	157
Other current assets	**4,272**	**1,575**

Prepaid expenses includes payments for services that will not be provided until after the reporting date.

Miscellaneous other current financial assets included receivables from minority interests amounting to EUR 1,001 thousand at 31 December 2018 (31 December 2017: EUR 0 thousand).

For detailed information regarding receivables from related parties, please refer to note 9.

Other current assets included the purchase price paid for the CFP assets in December 2018. The transfer of ownership of the acquired assets took place on 1 January 2019 as per the agreement.

4.9 Cash and cash equivalents

EUR thousand	31 December 2018	31 December 2017
Bank balances	212,470	6,240
Cash-in-hand	51	46
Cash and cash equivalents	**212,520**	**6,286**

Dermapharm maintains credit facilities with various German and international banks. For information about the utilisation of these credit facilities at the respective reporting date, please refer to note 7.1c).

4.10 Equity

Registration of in-kind capital increase

After the contribution and transfer of all shares of Dermapharm AG was completed with effect from 31 December 2017, the capital increase was recorded in the commercial register of the Munich local court on 4 January 2018. As at 31 December 2017, the Group reported an in-kind contribution of EUR 49,880 thousand as equity under the item Contributions in kind not yet registered. After registration, this amount is reported under issued capital.

Issued capital and IPO

On 29 January 2018, Dermapharm filed an application for admission of securities to trading on the Regulated Market of the Frankfurt Stock Exchange.

Following an amendment to the Articles of Association on 7 February 2018, the 2018 issued capital (share capital) amounts to EUR 53,840 thousand and is divided into 53,840,000 no-par value shares. Each no-par value share carries one vote.

Dermapharm's shares are listed on the Regulated Market and the Prime Standard sub-segment of the Frankfurt Stock Exchange under German Securities Code (WKN) A2GS5D, International Securities Identification Number (ISIN) DE000A2GS5D8 and ticker symbol DMP. Trading opened on 9 February 2018. Prior to that date, on 8 February 2018, the offer price for Dermapharm's IPO (together with its consolidated subsidiaries) was set at EUR 28.00 per share. A total of 13,455,000 shares in Dermapharm were offered. Of that number, 3,840,000 newly issued shares resulted from a capital increase and 9,615,000 shares stemmed from the holdings of the selling shareholder, including 1,755,000 shares for over-allotments ("Greenshoe option"). The gross proceeds from the capital increase amounting to approximately EUR 107,520 thousand are attributable to Dermapharm. The EUR 103,680 thousand premium was transferred to the capital reserve. The Greenshoe option granted the stabilisation manager in the context of a securities loan the option to offer investors up to 1,755,000 additional shares for over-allotments at the placement price. Joh. Berenberg, Gossler & Co. KG exercised this Greenshoe option on 9 March 2018 in the amount of 1,155,000 shares. Therefore, 40,985,000 shares continue to be held by the majority shareholder Themis Beteiligungs-Aktiengesellschaft. As at the end of the reporting period, the free float amounted to approximately 23.87 %.

In accordance with IAS 32.37, transaction costs incurred in the context of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. By contrast, the costs that are not directly attributable to the equity transaction must be recognised as an expense.

Certain costs of the IPO were not directly attributable to the issuance of new shares but instead to the initial listing of shares already issued. These costs were allocated based on the ratio of new shares to the total number of Dermapharm's placed shares. In financial year 2017, EUR 79 thousand in directly attributable transaction costs was recognised. In 2018, additional costs of EUR 3,061 thousand directly attributable to the capital increase were incurred. As at 31 December 2018, costs of acquiring equity totalling EUR 3,140 thousand were deducted from the capital reserve.

Authorised capital

The Management Board is authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period until 1 January 2023 (inclusive) against cash or in-kind contributions by a total of up to EUR 16,100 thousand by issuing new no-par value bearer shares (Authorised Capital 2018).

The Management Board is furthermore authorised, subject to the consent of the Supervisory Board, to stipulate the further details concerning the rights attaching to the shares and the terms of their issue as well as to exclude shareholders' subscription rights under certain conditions and within defined limits.

To date, the Authorised Capital 2018 has not been utilised.

Contingent capital

The issued capital is contingently increased by a total of up to EUR 10,700 thousand by issuing a total of up to 10,700,000 new no-par value bearer shares (Contingent Capital 2018). The contingent capital increase serves to grant shares to holders or creditors of convertible bonds and to holders of option rights from warrant-linked bonds issued by the Company or a domestic or foreign entity in which the Company directly or indirectly holds a voting and capital majority in the period until 25 January 2023 (inclusive) on the basis of the authorisation resolved by the Annual General Meeting of 26 January 2018. The contingent capital increase will only be implemented to the extent that conversion or option rights from the aforementioned bonds are actually exercised or conversion obligations from such bonds are fulfilled and to the extent that no other forms of fulfilment are used to service them.

The Management Board is authorised, subject to the consent of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase.

To date, the Contingent Capital 2018 has not been utilised.

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

4.11 Provisions for employee benefits

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

EUR thousand	31 December 2018	31 December 2017
Defined benefit obligation	769	819
Fair value of plan assets	404	538
Total	**365**	**281**

The pension provisions recognised by the Group as at the reporting date included EUR 50,360 thousand without plan assets (31 December 2017: EUR 12,753 thousand).

Expenses for defined benefit plans break down as follows:

EUR thousand	31 December 2018	31 December 2017
Interest expense	778	238
Current service cost	570	163
Total	**1,347**	**401**

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

EUR thousand	Pension obligations	Fair value of plan assets	Net pension obligation
As at 1 January 2018	**13,571**	**538**	**13,033**
Additions due to acquisitions (see 2.7)	36,708	-	36,708
	50,279	**538**	**49,742**
Gain/loss			
Current service cost	570	-	570
Interest expense	787	-	787
Interest income	-	9	(9)
Remeasurement			
Actuarial gains/losses			
of which due to changes in financial assumptions	*278*	-	*278*
of which due to changes in demographic assumptions	*574*	-	*574*
of which experience-based adjustments	*249*	-	*249*
Return on plan assets, excl. previously recognised interest income	-	(52)	52
Miscellaneous			
Employer contributions	-	5	(5)
Employee contributions	-	10	(10)
Retirement benefits	(1,608)	(106)	(1,502)
As at 31 December 2018	**51,129**	**404**	**50,726**

EUR thousand	Pension obligations	Fair value of plan assets	Net pension obligation
As at 1 January 2017	**13,745**	**495**	**13,250**
Gain/loss			
Current service cost	163	-	163
Interest expense	247	-	247
Interest income	-	9	(9)
Remeasurement			
Actuarial gains/losses			
of which due to changes in financial assumptions	*(197)*	-	*(197)*
of which experience-based adjustments	*(12)*	-	*(12)*
Return on plan assets, excl. previously recognised interest income	-	66	(66)
Miscellaneous			
Employer contributions	-	7	(7)
Employee contributions	-	11	(11)
Retirement benefits	(375)	(50)	(325)
As at 31 December 2017	**13,571**	**538**	**13,033**

There were no exchange differences because all provisions for pensions were recognised by German entities. At the reporting date, plan assets included EUR 404 thousand in securities (31 December 2017 EUR 538 thousand). All security funds have quoted prices in active markets.

Risk resulting from pension obligations

The risks from defined benefit plans arise partly from the defined benefit obligations and partly from the investment in plan assets. The risks result from the possibility that higher direct pension payments will have to be made to the beneficiaries.

Demographic/biometric risks

Since a large proportion of the defined benefit obligations comprises lifelong pension payments to retirees or their surviving dependents, pensions, longer claim periods and earlier claims may result in higher benefit obligations, higher benefit expense and/or higher pension payments than previously anticipated.

Investment risks

If the actual return on plan assets falls below the return anticipated on the basis of the discount rate, the net defined benefit liability would increase, assuming no changes to other parameters. This could happen as a result of a drop in share prices, increases in market rates of interest, default on the part of individual debtors or the purchase of low-risk but low-interest bonds, for example.

Interest-rate risks

The principal actuarial assumptions at the reporting date are presented below (expressed as weighted averages):

in %	31 December 2018	31 December 2017
Discount rate	1.7	1.8
Salary trend	1.0	0.7
Pension trend	1.7	2.2

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

Pension obligations	Change in actuarial assumptions	Impact as at 31 December 2018		Impact as at 31 December 2017	
EUR thousand		Pension obligations	Change	Pension obligations	Change
	1.00 % increase	43,965	(7,164)	11,613	(1,958)
Discount rate	1.00 % decrease	60,271	9,141	16,079	2,508
	0.50 % increase	51,676	547	13,464	33
Salary trend	0.50 % decrease	50,606	(523)	13,399	(32)
	0.50 % increase	54,513	3,384	14,255	825
Pension trend	0.50 % decrease	48,052	(3,077)	12,675	(756)
	1 year increase	53,929	2,800	13,677	106
Life expectancy	1 year decrease	270	(14)	12,675	(78)

At 31 December 2018, the weighted duration of the pension obligations was 13 years (31 December 2017: 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.

In order to limit the aforementioned risks and comply with future obligations, Anton Hübner GmbH & Co. KG has taken out life insurance policies, which, however, do not qualify as plan assets in accordance with IAS 19 and cannot be netted against future pension obligations. The same applies for Trommsdorff, which was acquired during the financial year and which had capitalised a pledged securities account for the purpose of insolvency protection for early partial retirement. Please refer to note 4.5 for further information.

4.12 Other provisions

Other provisons developed as follows:

EUR thousand	Health insurance discounts	Litigation	Onerous contracts	Total
As at 1 January 2018	**6,595**	**402**	**20**	**7,017**
Additions	7,492	644	269	8,405
Reversals	(273)	(6)	(90)	(368)
Utilisations	(6,220)	(239)	(20)	(6,479)
Exchange differences	-	12	-	12
As at 31 December 2018	**7,593**	**814**	**179**	**8,586**

EUR thousand	Health insurance discounts	Litigation	Onerous contracts	Total
As at 1 January 2017	**6,418**	**533**	**-**	**6,951**
Additions	6,185	242	20	6,447
Reversals	(519)	(188)	-	(707)
Utilisations	(5,489)	(185)	-	(5,674)
Exchange differences	-	-	-	-
As at 31 December 2017	**6,595**	**402**	**20**	**7,017**

As a consequence of regulatory state interventions on the pharmaceuticals market in Germany, the Group is obligated to negotiate discount agreements with health insurance organisations. For further information on provisions for health insurance discounts, please see note 3.

The provision for litigation essentially consists of a provision for litigation in connection with manufacturer rebates in the Parallel Import business.

4.13 Financial liabilities

Financial liabilities changed as follows:

EUR thousand	31 December 2018	31 December 2017
Bank loans	204,672	141,059
Promissory note loans	27,879	81,287
Finance lease liabilities	192	137
Non-current financial liabilities	**232,743**	**222,483**
Bank loans	11,840	10,943
Promissory note loans	53,494	570
Finance lease liabilities	161	134
Participation rights	-	7,127
Bank overdrafts	6,082	13,490
Current financial liabilities	**71,577**	**32,264**

Material new funding

At the beginning of the financial year, a floating-rate master working capital line with a principal amount of EUR 80,000 thousand was taken out to secure bridge financing for the Trommsdorff acquisition. This line was replaced in September 2018 with a roll-over loan with a principal amount of EUR 75,000 thousand.

This loan bears variable interest rates and falls due in September 2022.

Material repayments

The second tranche of the participation rights issued in 2010 amounting to EUR 6,360 thousand and the accrued interest amounting to EUR 767 thousand was repaid on time in January 2018.

4.14 Trade payables

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

4.15 Other non-current financial liabilities and other non-current liabilities

Other non-current financial liabilities mainly comprise the fair values of held-for-trading derivatives. As indicated in note 4.5, Dermapharm recognises the negative fair value of the cross-currency swap within other non-current financial liabilities. Moreover, other non-current financial liabilities include the negative fair values of interest rate swaps and floors.

At 31 December 2018, the negative fair value of the derivatives totalled EUR 3,395 thousand (31 December 2017: EUR 4,476 thousand).

The other non-current liabilities mainly comprise government grants. In accordance with IAS 20, government grants for assets are recognised as deferred income and had a carrying amount of EUR 9,583 thousand as at the reporting date (31 December 2017: EUR 10,024 thousand).

4.16 Other current financial liabilities and other current liabilities

Other current financial liabilities and other current liabilities were composed as follows:

EUR thousand	31 December 2018	31 December 2017
Liabilities to related parties	4	4,687
Purchase price liabilities	-	785
Derivatives	-	120
Miscellaneous	2	-
Other current financial liabilities	**6**	**5,592**
Other personnel-related liabilities	7,918	3,832
VAT liabilities	4,418	2,634
Government grants	839	1,489
Prepayments received	283	241
Deferred income	185	83
Miscellaneous	1,373	746
Other current liabilities	**15,016**	**9,025**

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 note 9.

Government grants, which are reported under other current liabilities, comprise the portion of government grants which will be reversed in the course of the next 12 months.

Deferred income relates to payments that have been received, for which the corresponding services have not yet been rendered.

As in the previous year, personnel-related liabilities comprise holiday entitlements, income and church taxes due, liabilities for bonuses and company pensions and other personnel-related charges.

4.17 Income taxes

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

Termination of profit and loss transfer agreement

In light of the termination of the profit and loss transfer agreement between Themis Beteiligungs-AG and Dermapharm AG on 1 January 2018, the consolidated tax group also ceased to apply to Themis Beteiligungs-AG from that date.

A consolidated tax group remains in place between Dermapharm AG and its subsidiaries mibe GmbH Arzneimittel, mibe Vertrieb GmbH, Hübner Naturarzneimittel GmbH and acis Arzneimittel GmbH. Bio-Diät-Berlin GmbH, Kräuter Kühne GmbH, axicorp GmbH, axicorp Pharma GmbH and Podolux GmbH were included in the consolidated income tax group on 1 January 2018. In addition, there is a consolidated income tax group in place between Strathmann GmbH & Co. KG and Biokirch GmbH.

Effects on current tax expense

Due to the termination of the consolidated tax group with Themis Beteiligungs-AG, current income tax expenses will be recognised at Dermapharm AG as the new tax group parent beginning on 1 January 2018.

The key components of income tax expenses for the 2018 and 2017 financial years break down as follows:

EUR thousand	2018	2017
Current income taxes		
Current income taxes	29,806	4,735
Subtotal	**29,806**	**4,735**
Deferred taxes		
from temporary differences	(1,168)	6,056
from tax loss carryforwards	374	(505)
Subtotal	**(794)**	**5,551**
Income tax expenses	**29,011**	**10,286**

The calculation of the current taxes as well as deferred tax assets and liabilities for the foreign subsidiaries was based on tax rates of between 18 % and 25 %. The calculation of deferred tax assets and liabilities applied the tax rates valid at the time the asset is realised or the liability is repaid.

Deferred tax assets and liabilities were calculated using the tax rate that is expected to be applicable as at the realisation or settlement date.

Deferred taxes are calculated for the companies included in Dermapharm AG's consolidated tax group using a mixed income tax rate of 27.29 % as at 31 December 2018 (31 December 2017: 26.59 %).

The following overview explains how the effective income tax expense reported in the income statement was derived from the expected income tax expense. The expected income tax expense is calculated by applying the nominal tax rate of a corporation headquartered in Grünwald to earnings before taxes.

Reconciliation to effective tax rate

EUR thousand	2018	2018	2017	2017
Earnings before taxes		104,237		88,030
Expected tax expenses	**24.23 %**	**25,251**	**24.23 %**	**21,325**
Utilisation of tax loss carryforwards	0.00 %	-	0.00 %	-
Non-deductible operating expenses	0.14 %	151	0.72 %	635
Tax-exempt income	-0.34 %	(351)	-0.03 %	(25)
Prior-year taxes	-0.04 %	(37)	0.33 %	287
Consolidated tax group	0.00 %	-	-13.72 %	(12,078)
Difference to Group tax rate	1.81 %	1,890	2.84 %	2,497
Miscellaneous	0.93 %	970	-0.07 %	(62)
Adjustment of profit in accordance with section 60 (2) EStDV	-0.79 %	(828)	-2.54 %	(2,232)
Earnings stripping in accordance with section 4h EStG	0.00 %	-	-0.08 %	(66)
Tax loss carryforwards not utilised	1.88 %	1,964	0.01 %	5
Current tax expense	**27,83 %**	**29.011**	**11,69 %**	**10.286**

The higher effective income tax rates are due primarily from the consolidated tax groups of Dermapharm AG and Strathmann GmbH & Co. KG. The mixed income tax rates are higher than the consolidated tax rate of 24.23 %.

Deferred taxes as at the reporting date were as follows:

EUR thousand	31 December 2018	31 December 2017
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	10,234	2,344
Deferred tax assets to be recovered within 12 months	560	513
Total deferred tax assets	**10,794**	**2,857**
Deferred tax liabilities		
Deferred tax assets to be recovered after more than 12 months	(14,685)	(13,370)
Deferred tax assets to be recovered within 12 months	(521)	(223)
Total deferred tax liabilities	**(15,207)**	**(13,593)**
of which deferred tax assets reported in the statement of financial position	***39***	***290***
of which deferred tax liabilities reported in the statement of financial position	***(4,452)***	***(11,026)***

The change in deferred taxes in the statements of financial position as at 31 December 2018 and 31 December 2017 was as follows:

EUR thousand	1 January 2018	Income statement	Other comprehensive income	Acquired through business combination	31 December 2018	Deferred tax assets	Deferred tax liabilities
Intangible assets	(13,061)	816	-	(1,322)	(13,567)	958	(14,525)
Tangible assets	-	(581)	-	-	(581)	2	(583)
Financial instruments	78	131	-	-	209	209	-
Other current financial assets	(34)	34	-	-	-	-	-
IPO expenses	(19)	19	-	-	-	-	-
Pension obligations	1,242	522	(367)	7,218	8,615	8,615	-
Other provisions	8	196	-	-	204	303	(99)
Intra-group result	126	31	-	-	157	157	-
Deferred taxes on tax loss carryforwards	924	(374)	-	-	550	550	-
Tax asset/(liability)	**(10,736)**	**794**	**(367)**	**5,896**	**(4,413)**	**10,794**	**(15,207)**

EUR thousand	1 January 2017	Income statement	Other comprehensive income	Acquired through business combination	31 December 2017	Deferred tax assets	Deferred tax liabilities
Intangible assets	(4,776)	(6,288)	-	(1,997)	(13,061)	383	(13,444)
Finance leases	(3)	3	-	-	-	-	-
Equity investments	(38)	38	-	-	-	-	-
Financial Instruments	-	78	-	-	78	157	(79)
Other current financial assets	(35)	1	-	-	(34)	18	(52)
IPO expenses	-	(19)	-	-	(19)	-	(19)
Pension obligations	1,131	153	(41)	-	1,242	1,242	-
Other provisions	28	(19)	-	-	8	8	-
Intra-group result	129	(3)	-	-	126	126	-
Deferred taxes on tax loss carryforwards	419	505	-	-	924	924	-
Tax asset/(liability)	**(3,147)**	**(5,551)**	**(41)**	**(1,997)**	**(10,736)**	**2,857**	**(13,593)**

The majority of deferred taxes resulted from capitalised development costs, which are recognised under intangible assets, amounting to EUR 9,157 thousand as at 31 December 2018 (31 December 2017: EUR 8,204 thousand).

In addition, deferred tax assets of EUR 15 thousand and deferred tax liabilities of EUR 192 thousand from the acquisition of the Strathmann Group were recognised in the past financial year. Of that amount, EUR 92 thousand was amortised in 2018.

Deferred tax assets of EUR 7,201 thousand and deferred tax liabilities of EUR 605 thousand from the acquisition of Trommsdorff GmbH & Co. KG were recognised. Of that amount, EUR 484 thousand was amortised in 2018.

Deferred tax liabilities of EUR 525 thousand from the acquisition of BLBR GmbH were recognised. These had not been amortised in 2018.

At 31 December 2018, the Group carried EUR 13,230 thousand in tax losses forward (31 December 2017: EUR 7,783 thousand) resulting from remedix GmbH, Dermapharm Holding SE, mibeTec GmbH, mibe Pharma Italia Srl., mibe Pharma UK Ltd. and Farmal d.d. No deferred taxes were recognised for tax loss carryforwards of EUR 11,216 thousand (31 December 2017: EUR 3,296 thousand) even though there was a positive earnings forecast in the individual case. In 2018 deferred tax assets of EUR 550 thousand were recognised on tax loss carryforwards of EUR 2,014 thousand (31 December 2017: EUR 924 thousand deferred tax assets on tax loss carryforwards of EUR 3,578 thousand). There were impairments on deferred tax assets on tax loss carryforwards of EUR 308 thousand in 2018.

Deferred tax liabilities for taxable temporary difference in connection with investments in subsidiaries and associates (outside-basis difference)

In accordance with IAS 12, no deferred tax liabilities were recognised for temporary differences amounting to EUR 61,208 thousand in connection with investments in subsidiaries and associates. Under the current rules, if these differences led to the recognition of deferred tax liabilities, this would result in a tax liability of EUR 742 thousand.

Tax assets

Tax assets amounted to EUR 1,990 thousand as at 31 December 2018 (31 December 2017: EUR 329 thousand). These are attributable primarily to axicorp GmbH's tax prepayments.

Tax liabilities

Tax liabilities amounted to EUR 23,032 thousand as at 31 December 2018 (31 December 2017: EUR 3,311 thousand) resulting from provisions for taxes recognised primarily by Trommsdorff GmbH & Co. KG, Dermapharm AG and Strathmann GmbH & Co. KG.

5. Notes to the consolidated statement of comprehensive income

5.1 Revenue

Dermapharm generates its revenue primarily through the supply of products.

The primary focus of Dermapharm's business lies on the German market. In addition, Dermapharm also generates revenue in Austria, Switzerland and Eastern Europe, largely via the distribution and production companies domiciled in the relevant countries. Consolidated revenue is allocated on the basis of where the respective companies are located.

The consolidated revenue generated in Germany amounted to EUR 537,254 thousand (2017: EUR 433,457 thousand) and accounted for 94 % (2017: 93 %) of Dermapharm's total consolidated revenue. Revenue generated in Austria and Switzerland, representing approximately 4 % (2017: 5 %) of consolidated revenue overall, amounted to EUR 24,110 thousand (2017: EUR 22,308 thousand). A less significant portion of the Group's revenue amounted to EUR 11,059 thousand (2017: EUR 11,351 thousand) is generated in Eastern Europe, primarily in Poland and Croatia.

Revenue and EBITDA are the two performance indicators which the Management Board of Dermapharm Holding SE uses as the basis for steering the Group. Additional information on the development of revenue during the reporting period is contained in the Segment Reporting section contained in note 6.

5.2 Other operating income

Other operating income is composed as follows:

EUR thousand	2018	2017
Reversals of provisions and income due to derecognition of liabilities	2,931	1,110
Government grants	1,474	1,722
Credits for goods	861	-
Netting of employee in-kind benefits	663	583
Charges passed on to former shareholders	445	-
Currency translation gains	263	1,831
Proceeds from employee grants	215	216
Insurance refunds and damages	190	168
Income from disposals of fixed assets	72	346
Miscellaneous	653	776
Other operating income	**7,767**	**6,752**

5.3 Personnel expenses and number of employees

Personnel expenses comprise the following:

EUR thousand	2018	2017
Wages and salaries	77,881	54,083
Social security expenses	14,246	9,694
Severance payments	130	347
Personnel expenses	**92,257**	**64,124**

In financial year 2018, expenses for company pension plans in the amount of EUR 1,236 thousand (2017: EUR 144 thousand) were reported under personnel expenses and included in social security expenses in the table above.

The table below provides an overview of the Group's average number of employees for the years ended 31 December 2018 and 2017:

Function	**2018**	**2017**
Production	573	455
Administration	416	322
Sales & Marketing	404	277
Logistics	147	120
Product Development	79	66
Average number of employees	**1,619**	**1,240**

The primary reasons for the increase in personnel included the positive business development which resulted in new hires, and the acquisition of Trommsdorff and Strathmann.

5.4 Other operating expenses

Other operating expenses are composed as follows:

EUR thousand	**2018**	**2017**
Marketing	14,094	9,093
Legal and consulting fees	8,772	6,928
Development costs	6,957	6,640
Maintenance expenses	6,450	4,251
Rental expenses	6,336	4,540
Contributions, fees and charges	6,270	4,630
Freight and warehousing	5,673	4,407
Selling expenses	3,642	2,325
Vehicle expenses	2,420	1,623
Purchased services	2,308	715
Sales commissions	1,375	1,134
Travel expenses	1,092	761
Communication	1,060	949
Currency translation losses	1,054	227
Licence fees	833	590
Bank fees	741	348
Losses on disposals of fixed assets	84	469
Miscellaneous	8,276	5,869
Other operating expenses	**77,438**	**55,498**

5.5 Financial result

Financial result is composed as follows:

EUR thousand	2018	2017
Income from fair value measurement	2,124	6,570
Interest income	1,820	1,772
Miscellaneous	6	50
Financial income	**3,949**	**8,392**
Expenses from fair value measurement	(2,192)	(6,913)
Interest expense	(6,020)	(7,173)
Finance leases	(14)	(9)
Miscellaneous	(792)	(24)
Financial expenses	**(9,018)**	**(14,119)**
Share of profit/loss of companies accounted for using the equity method, after tax	**1,796**	**1,641**
Financial result	**(3,272)**	**(4,086)**

The decrease in expenses from fair value measurement in financial year 2018 compared to financial year 2017 resulted from the expiration of two cross-currency swaps entered into by Dermapharm in 2008 and 2010.

Since Dermapharm has a claim against Themis Beteiligungs-AG for compensation of all expenses resulting from the cross-currency swap, the gains from the indemnity decreased by the same amount.

5.6 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to holders of ordinary shares by the weighted average number of shares outstanding, as presented below:

EUR thousand	2018	2017
Profit (loss) attributable to the owners of Dermapharm Holding SE	75,323	77,744
Weighted average number of shares outstanding (in thousands of shares)	53,419	49,937
Earnings per share	**1.41**	**1.56**

Weighted average number of ordinary shares

in thousands of shares	2018	2017
Number of shares outstanding at the beginning of the period	50,000	49,880
Number of shares outstanding at the end of the period	53,840	50,000
Weighted average number of shares outstanding	53,419	49,937
Number of potentially dilutive ordinary shares	-	-
Weighted average number of shares used to calculate diluted earnings per share	**53,419**	**49,937**

For further information, please refer to note 4.10.

6. Segment reporting

6.1 Notes to segment reporting

In the segment reporting, Dermapharm's activities are broken down by division and region in accordance with the provisions of IFRS 8 (Segment Reporting). The breakdown reflects internal management structures as well as the varying risk and profit profiles of the individual divisions.

Based on this, Dermapharm defined the two divisions "Branded pharmaceuticals and other healthcare products" and "Parallel import business" in line with its internal reporting structure.

The subsidiaries acquired in financial year 2018 are allocated to the "Branded pharmaceuticals and other healthcare products" segment.

Dermapharm's "Branded pharmaceuticals and other healthcare products" division covers a variety of product areas through a broad range of products which are sold under recognised brand names. Dermapharm focuses on the development, manufacturing and marketing of branded pharmaceuticals and other healthcare products for specifically selected markets in which Dermapharm generally holds a significant market share and is able to generate attractive margins.

Dermapharm's parallel import business, which operates under the recognised brand name "axicorp", benefits from the statutory requirement that at least 5 % of all prescription medications sold within the state healthcare system in Germany must be imported from other EEA member states in order to help decrease healthcare costs. The actual market share of parallel import in Germany is greater than 5 %.

As is customary in the industry, Dermapharm maintains business relationships with Germany's major pharmaceuticals wholesalers. Overall, roughly two-thirds of consolidated revenue is generated with five pharmaceuticals wholesalers. The revenue generated by the Group from those five customers in the 2018 and 2017 financial years was as below:

	2018		2017	
EUR thousand	Revenue	Share of consolidated revenue (%)	Revenue	Share of consolidated revenue (%)
Wholesaler A	113,340	20 %	78,458	17 %
Wholesaler B	90,013	16 %	68,623	15 %
Wholesaler C	71,058	12 %	55,076	12 %
Wholesaler D	60,871	11 %	50,951	11 %
Wholesaler E	60,777	11 %	48,298	10 %

Despite the fact that revenue is concentrated on a small number of customers, Dermapharm is not dependent on these customers. The amount of the Group's revenue depends on the demand of the large number of end customers at the pharmacies. If one wholesaler were to be eliminated, another would immediately absorb the demand covered by it. Furthermore, the wholesalers' credit risk – which is already insignificant due to the high frequency of small-volume orders – represents a much less significant risk for Dermapharm.

6.2 Segment reporting by division

Segment reporting uses key performance indicators for Dermapharm's individual segments. There is trade between the two individual segments only to a limited extent; this is presented in the "intersegment revenue" line item. Moreover, the Reconciliation/ Group Holding column shows Dermapharm's expenses incurred as the Group parent, which renders services to both reporting segments and does not carry out any operating activities itself.

Any transactions entered into for the provision of goods and services within the segments are shown as consolidated. The exchange of goods and/or services between the segments took place at arm's-length prices.

Revenue and EBITDA are the key indicators for assessing and managing the segments' profit or loss.

The segment assets and liabilities for each segment are not regularly reported to the Management Board and are therefore not presented in the segment reporting.

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

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

2017	Branded pharmaceuticals and other healthcare products	Parallel import business	Reconciliation/ Group holding company	Group
Revenue	225,616	242,988	-	468,604
of which intersegment revenue	*1,487*	-	-	*1,487*
Revenue from external customers	224,129	242,988	-	467,117
Revenue growth	7 %	3 %	-	5 %
EBITDA	104,561	7,085	(1,402)	110,244
of which earnings from investments accounted for in accordance with the equity method	*1,641*	-	-	*1,641*
EBITDA margin	47 %	3 %	-	24 %

The segments' EBITDA is reconciled to consolidated profit or loss as follows:

EUR thousand	2018	2017
EBITDA	**139,632**	**110,244**
Amortisation and impairment	(30,327)	(16,487)
Finance income	3,949	8,392
Finance costs	(9,018)	(14,119)
Earnings before taxes (EBT)	**104,237**	**88,030**
Income tax expenses	(29,011)	(10,286)
Profit or loss for the period	**75,226**	**77,744**
Profit or loss transferred in accordance with profit or loss transfer agreements	-	(57,136)
Profit or loss for the period after profit or loss transfer	**75,226**	**20,608**

7. Financial risk management and financial instruments

7.1 Financial risk factors

Dermapharm's future market development is exposed to a host of financial risks (market risk – including currency and interest rate risk – as well as credit and liquidity risk) due to the fact that its competitive environment is subject to state regulation, as well as to volatile prices for raw materials and stagnating prices caused by the government-initiated price freeze.

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

Dermapharm's risk management focused on identifying and assessing risks which arise as a result of unpredictable developments on the financial markets, among other things, as well as the appropriate management of potential negative impacts on the Group's financial position.

The risk management system is overseen centrally by the Risk Officer and by the Management Board as a whole. It is regularly reviewed for effectiveness and appropriateness. By contrast, individual risks are monitored and organised on a decentralised basis. Depending on the category and scope of the risks, this is the responsibility of either the heads of departments and managing directors, or the members of the Management Board of Dermapharm Holding SE. Potential risks are communicated regularly, either verbally or in writing, to all relevant divisions and companies.

The Group's Finance department works closely with the operating units to identify and assess financial risks. Management sets out both the principles for cross-divisional risk management and guidelines for specific risks, such as exposure to foreign currency, interest and credit risks, the use of derivative and non-derivative financial instruments and investments of liquidity surpluses.

Significant financial liabilities include interest-bearing financial liabilities, trade payables and other liabilities. Financial liabilities serve in particular to guarantee that the Group's operations are financed and secured. In addition, Dermapharm reports trade and other receivables and cash and cash equivalents which result directly from its business activities.

Derivative financial instruments are used by the Group to hedge against certain risks.

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

a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to effectively manage market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Currency risk relates to either translation risk or transaction risk.

Translation risk describes the risk from changes to items of the statement of financial position and statement of comprehensive income for a subsidiary due to changes to the exchange rates when converting local financial statements into the Group's presentation currency. Changes caused by currency fluctuations when translating items of the statement of financial position are recognised in equity. Dermapharm is currently exposed to such a risk through subsidiaries, although this risk is negligible due to the size of those companies.

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

The table below presents the impacts of currency fluctuations on the total fair values of the currency forwards as at 31 December 2017. At 31 December 2018, the Group did not hold any currency forwards.

Sensitivity analysis

EUR thousand		**31 December 2017**
Assumed change in exchange rate	EUR appreciates by 10 %	EUR depreciates by 10 %
Change in fair value of FX XWD	326	(475)
Total fair value	**326**	**(475)**
Impact on income statement	-	-
Gain/(loss)	**440**	**(361)**

IFRS 7 requires that sensitivity analyses be prepared to accompany the presentation of market risks arising in connection with financial instruments; these analyses must show the impact that hypothetical changes in relevant risk variables might have on profit or loss for the period and on equity. The analysis presented below is one-dimensional and does not take into account tax effects. The table shows the positive and negative effects that would occur should the euro depreciate or appreciate by 5 % in relation to the relevant currencies (CHF, PLN and HRK), with all other variables remaining constant. Currency translation gains and losses on trade receivables and payables denominated in foreign currencies have an impact on the consolidated profit or loss, which is reflected analogously in equity. Aside from these currency translation effects, there are no further effects on equity arising from financial instruments.

A potential strengthening (weakening) of the euro against material currencies used by Dermapharm as at 31 December of the respective year would have affected the measurement of financial position by the amounts shown below. This analysis assumes that all other variables, particularly interest rates, remain constant and ignores any impact of forecast sales and purchases.

31 December 2018	**Balance in foreign currency**	**EUR thousand**	**+5 % impact on income statement**	**-5 % impact on income statement**
CHF	20,313	18,025	(858)	949
PLN	(3,456)	(802)	38	(42)
HRK	(118,153)	(15,895)	757	(837)

31 December 2017	**Balance in foreign currency**	**EUR thousand**	**+5 % impact on income statement**	**-5 % impact on income statement**
CHF	21,381	18,280	(870)	962
PLN	(4,866)	(1,164)	55	(61)
HRK	(115,539)	(15,472)	737	(814)

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

Interest rate risk

Interest rate risk includes the effect of positive and negative changes to interest rates on profit, equity, or cash flows in current and future reporting periods. Dermapharm is exposed to interest rate risks from financial instruments mainly in connection with financial liabilities.

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

EUR thousand	31 December 2018	31 December 2017
Assumed change in interest rate		
- 50 basis points	(2,598)	(2,536)
Current fair value of derivatives	(741)	(580)
+ 50 basis points	43	307

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

EUR thousand	31 December 2018	31 December 2017
Assumed change in interest rate		
- 50 basis points	2,036	898
Current interest expense	3,492	1,825
+ 50 basis points	4,947	2,753

b) Credit risk

Credit risk is the risk of financial loss arising from a counterparty's inability to repay or service debt in accordance with the contractual terms. Credit risk includes both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risk.

Credit risk is managed at the Group level, except for credit risk as it pertains to trade receivables. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

The extent of the maximum credit risk for Dermapharm corresponds to the sum of trade receivables, other financial assets and cash and cash equivalents. In the event of a default on the part of a counterparty, the maximum credit risk for all classes of financial assets is equal to the respective carrying amount at the reporting date. No material concentration risks for the Group existed during the current or prior periods.

The Group is exposed to potential credit risks primarily in relation to trade receivables from customers. As in the past, there was no need to recognise any major valuation allowances in respect of trade receivables during the current period. Credit risks from financial transactions are managed centrally by the Finance department. To minimise risks, financial transactions are conducted only within short-term periods and with banks and other partners that preferably have investment-grade ratings.

In addition, there exists a credit risk in respect of cash and cash equivalents in the event that financial institutions were no longer able to satisfy their obligations. This credit risk is limited by investing only with various banking institutions with good ratings.

c) Liquidity risk

Liquidity risk includes the risk that Dermapharm will not be in the position to satisfy its assumed financial liabilities as they fall due. For this reason, a significant aim of liquidity management is to ensure that payment is possible at all times. Management continuously monitors the risk of liquidity shortfalls by using the liquidity planning capabilities of its ERP system. This system tracks payments into and out of the financial assets and financial liabilities as well as expected cash flows from business activities.

The Group's aim is to maintain a balance between continuously covering the required financial resources and ensuring flexibility by using bank credit facilities. Any remaining short-term liquidity requirement peaks are balanced out by using those credit facilities.

Dermapharm has access to the following lines of credit:

EUR thousand	31 December 2018	31 December 2017
Aggregate lines of credit	89,175	85,916
Available lines of credit	83,093	72,426
Number of banks	16	17

The table below shows the Group's financial liabilities according to maturity, based on the remaining maturity at the respective reporting dates and in relation to the contractually agreed, non-discounted cash flows. Financial liabilities payable at any time are allocated to the earliest possible time of payment. Variable interest payments from the financial instruments, where applicable, were calculated on the basis of respective forward rates as at the reporting date.

EUR thousand	Due within 1 year	Due between 1-5 years	Due after 5 years
31 December 2018 **Expected cash flows from financial liabilities**			
Interest	2,720	6,382	-
Repayment of principal	60,885	161,690	-
Expected cash flows from trade payables	28,181	-	-
Expected cash flows from other financial liabilities	6	-	-
31 December 2017 **Expected cash flows from financial liabilities**			
Interest	3,691	11,189	-
Repayment of principal	28,755	222,710	1
Expected cash flows from trade payables	23,367	-	-
Expected cash flows from other financial liabilities	5,592	-	-

Proceeds and expenses from derivatives were expected as follows:

EUR thousand	Due within 1 year	Due between 1-5 years	Due after 5 years
31 December 2018 Expected cash flows from derivatives			
Derivative contracts - proceeds	1,697	939	-
Derivative contracts - expenses	(1,798)	(1,043)	-
31 December 2017 Expected cash flows from derivatives			
Derivative contracts - proceeds	1,952	2,233	-
Derivative contracts - expenses	(2,198)	(2,139)	-

7.2 Disclosures on capital management

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

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

Net indebtedness is defined as the total of current and non-current financial liabilities and other current and non-current financial liabilities less cash and cash equivalents. Net indebtedness as at 31 December 2018 was EUR 95,200 thousand (31 December 2017: EUR 258,529 thousand). EBITDA is defined as operating earnings plus depreciation, amortisation and write downs and equity interests in companies accounted for using the equity method.

At 31 December 2018, the net indebtedness to EBITDA ratio was 0.7 (31 December 2017: 2.3).

The equity ratio developed as follows:

EUR thousand	31 December 2018	31 December 2017
Equity attributable to owners of parent	252,449	73,685
Total equity and liabilities	704,581	415,303
Equity ratio (%)	**36 %**	**18 %**

In financial years 2017 and 2018, the Group did not breach the financial covenants.

7.3 Additional disclosures on financial instruments

The table below shows the carrying amounts of all financial instruments reported in the consolidated 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 IFRS 9. Dermapharm exercised the option to not adjust the comparative information and to consequently present it in accordance with IAS 39.

The table depicts the fair values of the financial instruments and the IFRS 13 fair value hierarchy level applied to obtain the value. Further information on fair value measurement is contained in note 2.24.

31 December 2018			Measurement in accordance with IFRS 9				
EUR thousand	Carrying amount at 31 December 2018	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Measurement in accordance with IAS 17	Fair value as at 31 December 2018	Fair value level
Assets							
Other non-current financial assets	3,706	1,078	2,628	-	-	3,706	2
Equity investments	382	382	-	-	-	382	
Trade receivables	34,124	34,124	-	-	-	34,124	
Other current financial assets	1,365	1,365	-	-	-	1,365	2
Cash and cash equivalents	212,520	212,520	-	-	-	212,520	
Liabilities							
Non-current financial liabilities							
of which bank loans	*204,672*	*204,672*	-	-	-	*209,762*	*2*
of which promissory note loans	*27,879*	*27,879*	-	-	-	*29,013*	*2*
of which participation rights	-	-	-	-	-	-	*2*
of which lease liabilities	*192*	-	-	-	*192*	*192*	
Other non-current financial liabilities	3,395	-	3,395	-	-	-	2/3
Current financial liabilities							
of which bank loans	*11,840*	*11,840*	-	-	-	*13,393*	*2*
of which promissory note loans	*53,494*	*53,494*	-	-	-	*55,001*	*2*
of which participation rights	-	-	-	-	-	-	*2*
of which bank overdrafts	*6,082*	*6,082*	-	-	-	*6,082*	
of which lease liabilities	*161*	-	-	-	*161*	*161*	
Trade payables	28,181	28,181	-	-	-	28,181	
Other current financial liabilities	6	6	-	-	-	6	2

For further information on the reconciliation from IAS 39 to IFRS 9, please see note 2.2.

31 December 2017			Measurement in accordance with IFRS 39				
EUR thousand	Categories in accordance with IAS 39	Carrying amount at 31 December 2017	Amortised cost	Fair value through profit or loss	Measure-ment in accordance with IAS 17	Fair value as at 31 December 2017	Fair value level
Assets							
Other non-current financial assets	LaR/HfT	4,419	523	3,896	-	4,419	2
Equity investments	AfS	188	188	-	-	188	
Trade receivables	LaR	24,677	24,677	-	-	24,677	
Other current financial assets	LaR/HfT	78,318	78,312	6	-	78,318	2
Cash and cash equiva-lents	LaR	6,286	6,286	-	-	6,286	
Liabilities							
Non-current financial liabilities							
of which bank loans	*FLAC*	*141,059*	*141,059*	-	-	*146,213*	*2*
of which promissory note loans	*FLAC*	*81,287*	*81,287*	-	-	*83,684*	*2*
of which participation rights	*FLAC*	-	-	-	-	-	*2*
of which lease liabilities	*n/a*	*137*	-	-	*137*	*137*	
Other non-current financial liabilities	HfT	4,476	-	4,476	-	4,476	2 / 3
Current financial liabilities							
of which bank loans	*FLAC*	*10,944*	*10,944*	-	-	*10,159*	*2*
of which promissory note loans	*FLAC*	*570*	*570*	-	-	*1,564*	*2*
of which participation rights	*FLAC*	*7,127*	*7,127*	-	-	*7,127*	*2*
of which bank overdrafts	*FLAC*	*13,489*	*13,489*	-	-	*13,489*	
of which lease liabilities	*n/a*	*134*	-	-	*134*	*134*	
Trade payables	FLAC	23,367	23,367	-	-	23,367	
Other current financial liabilities	FLAC/HfT	5,592	5,472	120	-	5,592	2
Total per category in accordance with IAS 39							
Available for sale (AfS)	AfS	188	188	-	-	188	
Financial assets held for trading (HfT)	HfT	3,902	-	3,902	-	3,902	
Loans and receivables (LaR)	LaR	109,798	109,798	-	-	109,798	
Financial liabilities held for trading (HfT)	HfT	4,596	-	4,596	-	4,596	
Financial liabilities at amortised cost (FLAC)	FLAC	283,315	283,315	-	-	291,075	

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 table below depicts the net result from financial instruments for the period ended 31 December 2018. The comparative information as at 31 December 2017 is presented separately in accordance with IAS 39.

EUR thousand	2018
Interest income	**1,838**
from financial assets measured at (amortised) cost	*50*
from derivatives measured at fair value through profit or loss	*1,788*
Interest expense	**(6,020)**
from financial liabilities measured at (amortised) cost	*(4,193)*
from derivatives measured at fair value through profit or loss	*(1,827)*
Amortisation and impairment of financial assets measured at (amortised) cost	**(20)**
Net result from subsequent measurement through profit or loss	**(73)**
Gains from subsequent measurement through profit or loss of derivatives	2,119
Losses from subsequent measurement through profit or loss of derivatives	(2,192)
Foreign exchange gains on financial instruments	**263**
Foreign exchange losses on financial instruments	**(1,054)**
Net result from financial instruments (in accordance with IFRS 9)	**(5,065)**

Net result from financial instruments (in accordance with IAS 39)

EUR thousand	2017
Interest income	**1,772**
Loans and receivables (LaR)	113
Derivatives	1,659
Interest expense	**(7,173)**
Financial liabilities (FLAC)	(5,285)
Derivatives	(1,888)
Write-downs of receivables (LaR)	**(9)**
Impairment of financial assets (AfS)	**-**
Net result from subsequent measurement through profit or loss (HfT)	**(343)**
Gains from subsequent measurement through profit or loss (HfT)	6,570
Losses from subsequent measurement through profit or loss (HfT)	(6,913)
Foreign exchange gains	**1,831**
Foreign exchange gains from loans and receivables (LaR)	1,395
Foreign exchange gains from financial liabilities (FLAC)	436
Foreign exchange losses	**(227)**
Foreign exchange losses from loans and receivables (LaR)	(6)
Foreign exchange losses from financial liabilities (FLAC)	(221)
Net result from financial instruments	**(4,149)**

8. Other disclosures

8.1 Notes to the consolidated statement of cash flows

The consolidated statement of cash flows was prepared in accordance with IAS 7 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 classified as cash flows from either operating, investing or financing activities. The cash inflows and outflows from operating activities are derived indirectly starting from the Group's profit or loss for the year. Cash inflows and outflows from investing and financing activities are derived directly. The funds in the consolidated statement of cash flows correspond to the value of cash and cash equivalents and bank overdrafts in the consolidated statement of financial position. Cash and cash equivalents include the freely available cash deposits and deposits with financial institutions.

The structure of the statement of cash flows was modified slightly as compared to the previous year to improve the presentation and clarity. For reasons of comparability, the prior-year structure and amounts were adjusted as follows.

Previous structure		New structure	
Net cash flows from operating activities (EUR '000):			
Amortisation/(reversals of amortisation) of intangible assets	10,804	Depreciation and amortisation(reversals of depreciation and amortisation) of fixed assets	16,187
Impairment/(reversals of impairment) of intangible assets	326		
Depreciation/(reversals of depreciation) of property, plant and equipment	5,057		
(Increase)/decrease in inventories	4,781	(Increase)/decrease in working capital (assets)	(6,310)
(Increase)/decrease in trade receivables	1,856		
(Increase)/decrease in other assets	(12,947)		
Increase/(decrease) in other current provisions	64	Increase/(decrease) in working capital (liabilities)	(10,711)
Increase/(decrease) in trade payables	(1,155)		
Increase/(decrease) in other liabilities	(9,620)		
(Gain)/loss on disposal of intangible assets	146	(Gain)/loss on disposal of non-current assets	124
(Gain)/loss on disposal of property, plant and equipment	(22)		
(Increases)/decreases in tax assets and deferred tax assets and (decreases)/increases in tax liabilities and deferred tax liabilities	7,745	Change in deferred taxes	5,551
		(Increase)/decrease in working capital (assets)	103
		Increase/(decrease) in working capital (liabilities)	2,091
Net cash flows from investing activities (EUR '000):			
Proceeds from the disposal of intangible assets	333	Proceeds from the disposal of intangible assets and property, plant and equipment	508
Proceeds from the disposal of property, plant and equipment	175		
Payments for investments in intangible assets	(70,209)	Payments for investments in intangible assets and property, plant and equipment	(74,715)
Payments for investments in property, plant and equipment	(4,506)		

The payments for business combinations, less cash in the amount of EUR 93,059 thousand, reported in cash flows from investing activities, resulted primarily from the acquisitions of 100 % of shares in Trommsdorff GmbH & Co. KG and Strathmann GmbH & Co. KG, as well as 50,98 % of shares in BLBR GmbH, see also note 2.7. A purchase price payment of EUR 85,519 thousand was negotiated for the acquisition of the shares in Trommsdorff GmbH & Co. KG. An outflow of EUR 68,087 thousand resulted, taking into account the EUR 17,432 thousand in cash acquired. EUR 23,850 thousand of the purchase price for the shares in Strathmann GmbH & Co. KG was paid in cash. An outflow of EUR 23,478 thousand resulted, taking into account the EUR 372 thousand in cash acquired. The reimbursements totalling EUR 7,194 thousand received due to the negotiated escalation clauses for the two acquisitions (see also note 2.7) are presented in proceeds from excess purchase price payments in the context of business combinations. EUR 26 thousand was contributed to the share capital for the acquired shares in BLBR GmbH. EUR 1,974 thousand of the committed contribution into the free capital reserves had already been paid as at 31 December 2018. Contributions to share capital and free capital reserves primarily represented the cash and cash equivalents as at the acquisition date. In addition, payments for business combinations, less cash also included the prepayment of the negotiated purchase price of EUR 765 thousand for the acquisition of material assets of CFP Packaging GmbH, (see also note 12), and the settlement of the purchase price liability of EUR 785 thousand remaining as at 31 December 2017 in the context of the acquisition of shares in Bio-Diät-Berlin GmbH.

The cash and non-cash changes in financial liabilities, the inflows and outflows for which are presented under cash flows from financing activities in the statement of cash flows, can be broken down as follows for the 2018 financial year:

EUR thousand	2018	2017
Financial liabilities as at 1 January	**254,747**	**162,779**
Proceeds from borrowings	155,000	150,000
Repayments of borrowings	(98,101)	(66,580)
Repayment of finance lease liabilities	(177)	(140)
Total changes from cash flows from financing activities	**56,722**	**83,280**
Effect of exchange rate changes	(17)	65
Changes in bank overdrafts	(7,408)	8,623
Other changes	275	-
Financial liabilities as at 31 December	**304,319**	**254,747**

8.2 Other financial obligations and contingent liabilities

a) Obligations from finance leases

The Group has entered into a number of lease agreements for various vehicles and technical equipment. The structure of these lease agreements requires that they 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 2018		31 December 2017	
EUR thousand	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
With a remaining term of less than one year	191	173	142	134
With a remaining term between one and five years	191	180	141	136
With a remaining term of more than five years	-	-	1	1
Total	**382**	**353**	**284**	**271**
less interest component	(29)	-	(13)	-
Present value of minimum lease payments	**353**	**353**	**271**	**271**
of which current liabilities	-	*173*	-	*134*
of which non-current liabilities	-	*180*	-	*137*

b) Obligations from operating leases

The Group has concluded lease agreements for office and warehouse spaces, various vehicles and office equipment. 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 under the leasing agreements.

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

EUR thousand	**31 December 2018**	**31 December 2017**
With a remaining term of less than one year	3,485	2,157
With a remaining term between one and five years	4,892	1,730
With a remaining term of more than five years	5,224	5,067
Total	**13,601**	**8,954**

In financial year 2018, expenses from operating leases amounted to EUR 3,609 thousand (2017: EUR 2,273 thousand).

c) Other financial obligations

Litigation

In the course of its business activities, the Group is regularly exposed to numerous legal risks, particularly in connection with litigation relating to the areas of product liability, competition, intellectual property disputes and tax matters. The following legal dispute represents the only material proceedings in which the Group currently is or was involved during the past twelve months:

On 27 December 2011, Dermapharm filed an action against UniCredit Bank AG ("UniCredit") before the Regional Court (*Landgericht*) of Munich, seeking rescission of certain currency-related swap transactions entered into with UniCredit between 2008 and 2010. As at 31 December 2018, the amount in dispute was EUR 7,850 thousand. Dermapharm had entered into these transactions as part of its interest rate hedging and optimisation strategy and is of the opinion that UniCredit breached its obligation to properly advise the Group on the risks associated with these transactions. Given that Dermapharm is acting as claimant, this action generally only provides upside to the Group. The action was dismissed in the first two instances on 6 July 2016. The Group has filed an appeal against the denial of leave to appeal with the German Federal Supreme Court and currently assumes that this court will take a decision on this appeal in the second quarter of the financial year ending on 31 December 2019. On 21 December 2015, Dermapharm AG and Themis Beteiligungs-AG concluded an indemnity agreement pursuant to which the Group assigned its claims against UniCredit to Themis Beteiligungs-AG. In return, Themis Beteiligungs-AG has undertaken to assume payments from Dermapharm to UniCredit in the context of the currency swap transactions as well as legal fees in connection with the Munich Regional Court, unless Dermapharm AG has recognised provisions in this respect. Accordingly, these contracts are not expected to result in any expenses. All claims levelled by UniCredit against Dermapharm AG in financial year 2018 will be passed on to Themis Beteiligungs-AG.

In addition to the aforementioned litigation, the Group is involved in other court proceedings. However, none of these proceedings have a material effect on the Group's financial position and each of them are within the scope of the Group's ordinary activities.

Apart from the proceedings described above, the Group is not aware of any administrative, court or arbitration proceedings (whether pending or threatened) which may have, or have had, a material effect on its financial position or profitability.

Guarantees

There were no material guarantees as at 31 December 2018 or 31 December 2017.

Contingent liabilities

There were no material contingent liabilities as at 31 December 2018 or 31 December 2017.

Purchase commitments

At 31 December 2018, the Group had purchase commitments relating to inventories of EUR 78,028 thousand (31 December 2017: EUR 40,388 thousand).

9. Related party disclosures

In accordance with IAS 24, related parties are persons or companies, other than entities which are already included in the consolidated financial statements, which can be materially influenced by or are able to influence Dermapharm.

In principle, all transactions are settled with related parties at market conditions and all outstanding balances with related parties are priced on an arm's length basis. Key management personnel include members of the Management Board and the Supervisory Board. Significant shareholders are those who own or are the beneficial owners of more than 10 % of Dermapharm's voting shares.

Transactions with related parties for the financial years ended 31 December 2018 and 31 December 2017 between Dermapharm and significant shareholders and other related parties are summarised below.

a) Material transactions

Related party transactions (persons)

EUR thousand	2018	2017
Marketing and advertising	1,200	1,148
Remuneration at Dermapharm AG, Hünenberg, Switzerland	110	111
Total	**1,310**	**1,259**

Related party transactions (entities)

	Transactions in		Open receivables as at 31 December		Open liabilities as at 31 December	
EUR thousand	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Transfer of goods						
Associates	563	407	-	-	-	-
Non-consolidated companies	930	102	150	13	-	50
Consulting and services						
Parent (Themis Beteiligungs-AG)	1,035	497	14	1,048	-	420
Associates	2	-	-	-	-	-
Non-consolidated companies	1,028	634	2	5	4	4
Offsetting of current expenses						
Parent (Themis Beteiligungs-AG)	71,272	89,528	2,628	71,286	-	268
Associates	1,474	1,300	-	-	-	-
Consolidated tax group						
Parent (Themis Beteiligungs-AG)	5,338	9,333	-	9,333	-	3,945
Miscellaneous						
Associates						
Loans and interest	93	93	93	93	-	-
Capital increase	213	-	-	-	-	-
Total	**81,948**	**101,893**	**2,887**	**81,778**	**4**	**4,687**

Transactions with related companies in connection with the offsetting of current expenses resulted primarily from the profit and loss transfer agreement that expired on 31 December 2017, from the cross-currency swap concluded with UniCredit Bank AG (see note 8.2c for further information), the sale of shares to non-consolidated companies in 2015 and Themis Beteiligungs-AG.

Furthermore, there were open receivables balances resulting from the offsetting of current expenses, which related solely to receivables from recognised derivatives. For further information on the derivatives recognised, please refer to note 4.5.

The open liabilities related primarily to liabilities in connection with the consolidated tax group with Themis Beteiligungs-AG in the previous year. The consolidated tax group was unwound with effect from 1 January 2018.

b) Remuneration of key management personnel

The total remuneration paid to the Management Board and the Supervisory Board is described in detail in the Group management report, including additional disclosures relating to the remuneration system.

The remuneration of members of the Management Board and the Supervisory Board, who represent the key management personnel, is presented as follows in accordance with IAS 24:

EUR thousand	2018	2017
Short-term benefits	2,117	1,791
Long-term benefits	1,200	50
Total	**3,317**	**1,841**

The members of key management receive remuneration solely due to their function as a person in a key position.

10. Disclosures on the Management Board and the Supervisory Board

The Company's corporate boards are composed as follows:

Members of the Management Board:

Name	Member since	Appointed until	Position	Profession
Dr Hans-Georg Feldmeier	Aug 2017	2020	Chief Executive Officer	Pharmacist
Stefan Hümer	Aug 2017	2020	Chief Financial Officer	Merchant
Stefan Grieving	Aug 2017	2020	Chief Marketing Officer	Merchant
Karin Samusch	Aug 2017	2020	Chief Business Development Officer	Merchant

Members of the Supervisory Board:

Name	Member since	Appointed until	Position	Profession
Wilhelm Beier	Aug 2017	2022	Chairman of the Supervisory Board	Merchant
Dr Erwin Kern	Aug 2017	2022	Deputy Chairman of the Supervisory Board	Merchant
Lothar Lanz	Jan 2018	2022	Member of the Supervisory Board	Merchant

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

11. Auditor's fees and services

At the Annual General Meeting on 26 June 2018, the shareholders of Dermapharm Holding SE elected Warth & Klein Grant Thornton AG to audit the annual financial statements. Warth & Klein Grant Thornton AG's fees were broken down as follows:

EUR thousand	2018	2017
Audit services	617	491
Other confirmation services	80	-
Miscellaneous services	-	-
Tax consultancy services	-	-
Total	**697**	**491**

The audit services related to the audit of the consolidated financial statements and the audit of the annual financial statements and dependent company reports of Dermapharm Holding SE and its subsidiaries at the end of the financial year as well as the audit review of the interim consolidated financial statements as at 30 June 2018.

The other confirmation services consisted primarily of the issuance of letters of comfort in the context of the IPO.

12. Events after the reporting period

Events after the reporting date with a material or potentially material effect on the Group's financial position, financial performance and cash flows:

- On 1 January 2019, Dermapharm entered into an agreement to acquire material assets from CFP Packaging GmbH in Wiedemar with the seller, Attorney Axel Roth, in his function as insolvency administrator for the company. The transfer of the assets was subject to conditions precedent, which were satisfied in early 2019. The transaction constituted a business combination as defined under IFRS 3. A purchase price allocation as required in accordance with IFRS 3 as a result of the acquisition will be necessary in 2019 in order to satisfy the conditions set out in the purchase agreement. The agreed purchase price was EUR 765 thousand, including further escalation clauses. Essentially, by acquiring the company's assets, Dermapharm intends to gain access to the machinery and expertise in the field of special packaging for powder and liquid sticks as well as access to various customers based on long-term supply agreements still in force. Given that the purchase price allocation was not yet complete as at the date on which these consolidated financial statements were approved for publication, it is not possible to quantify the fair values of acquired assets and liabilities.

- With effect from 3 January 2019, Dermapharm has acquired all shares in the Spanish company Euromed Botanicals S.L.U. and its subsidiaries Euromed S.A. and Euromed USA Inc. Euromed is a leading producer of plant extracts and natural active ingredients which are needed as precursors in the manufacturing of phytopharmaceuticals (plant pharmaceuticals), nutraceuticals (functional foods) and cosmetics products. Since being formed in 1971, the company has gained almost 50 years of expertise and reputation in the field of plant extracts. The complete traceability of production activities, starting with the seed selection through to the finished extract, is unique. At present, two state-of-the-art production facilities are operated in Spain near Barcelona and Murcia with capacities for future growth, as well as a drying plant in the Florida. The transaction constituted a business combination as defined under IFRS 3. A purchase price allocation as required in accordance with IFRS 3 as a result of the acquisition will be necessary in 2019 in order to satisfy the conditions set out in the purchase agreement. The initially agreed purchase price was EUR 262,831 thousand, including further escalation clauses. Given that the purchase price allocation was not yet complete as at the date on which these consolidated financial statements were approved for publication, it is not possible to quantify the fair values of acquired assets and liabilities.

- In early 2019, Dermapharm AG took out a EUR 150,000 thousand loan with a German bank to serve as bridge financing for the acquisition of shares in Euromed. The loan bears a floating rate of interest (3-month EURIBOR plus a margin) and a maximum maturity until 30 December 2019. It must be paid back in a lump sum at the end of the term

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

Grünwald, 12. April 2019

The management board

Dr. Hans-Georg Feldmeier	Stefan Hümer	Karin Samusch	Stefan Grieving
Chief Executive Officer	Chief Financial Officer	Chief Business Development Officer	Chief Marketing Officer

DECLARATION OF THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable accounting standards, the condensed consolidated financial statements for the period from 1 January 2018 to 30 June 2018 provide a true and fair view of the Group's net assets, financial position and results of operations, and the condensed group management report presents the Group's business performance, including the financial performance and the financial position, in a manner that gives a true and fair view and describes the principal opportunities and risks of the company's anticipated development.

Grünwald, 12. April 2019

Dr. Hans-Georg Feldmeier

Chief Executive Officer

Stefan Hümer

Chief Financial Officer

Karin Samusch

Chief Business Development Officer

Stefan Grieving

Chief Marketing Officer

INDEPENDENT AUDITOR'S REPORT

To Dermapharm Holding SE, Grünwald

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of Dermapharm Holding SE, Grünwald, and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January 2018 to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report which is combined with the management report (referred to subsequently as "combined management report") of Dermapharm Holding SE for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the Corporate Governance Statement pursuant to Section 289f and Section 315d HGB [Handelsgesetzbuch: German Commercial Code].

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the above mentioned Corporate Governance Statement pursuant to Section 289f and Section 315d HGB.

Pursuant to section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation, with the exception of a non-audit service provided by a Grant Thornton member firm for a subsidiary of Dermapharm Holding SE, which based on an assessment of its quantitative and qualitative importance does not impair our independence. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters in our view:

1. Capitalisation of development costs
2. Identification and measurement of the assets and liabilities transferred in the context of the Trommsdorff and Strathmann acquisitions and related note disclosures
3. Impairment testing of the goodwill and of the capitalized development costs with (still) indefinite useful lives
4. Recognition, completeness and presentation of current income taxes

Our presentation of the key audit matters has been structured as follows:

1. Financial statement risk
2. Audit approach
3. Reference to related disclosures

1. Capitalisation of development costs

1. Financial Statement Risk

In the consolidated financial statements of Dermapharm Holding SE for the year ended 31 December 2018, capitalised development costs for the development of new pharmaceutical products and authorisations amounting to EUR 40.0 million are reported in consolidated statement of financial position under the line item "Intangible assets", of which EUR 10.4 million were capitalized in the financial year 2018. The development costs are capitalised subject to the assessment by the executive directors of Dermapharm Holding SE as to whether the capitalisation requirements of development costs of IAS 38 have been met. The assessment required in this context whether it is likely that future economic benefits are expected for the Dermapharm Group was based on internal planning calculations. The capitalised development costs are determined by the costs directly attributable to the development project and include personnel costs for members of staff involved in the development process, and an appropriate part of the directly attributable overhead costs and costs for external resources.

Whether it is necessary or permitted to capitalise the development costs incurred in the financial year 2018 and in which amount highly depends on the assessment of the executive directors if the definitions and recognition criteria set out in IAS 38 have been met and is therefore associated with a high degree of estimation uncertainty. In consideration of the foregoing and of the importance of capitalised development costs for the financial performance of the Dermapharm Group, this matter was of particular significance in our audit.

2. Audit Approach

As part of our audit of the capitalisation of development costs, among other things, we reperformed and assessed the processes in place for a reliable calculation of the development costs to be capitalised. We assessed development projects selected on the basis of quantitative and qualitative criteria as to whether the definitions and recognition criteria set out in IAS 38 for the capitalisation of development costs have been met. For this purpose we critically assessed the underlying assumption of the capitalisation that future economic benefits are expected for the Dermapharm Group on the basis of the planning calculations submitted to us by the executive directors of Dermapharm Holding SE. We assessed the appropriateness of key planning assumptions in the light of current

and expected market conditions and of the explanations we received from interviews of the Head of Clinical Research Departments and the executive directors. For the selected development projects we furthermore convinced ourselves that the capitalised development costs are directly attributable costs which qualify for capitalisation under IAS 38.

3. Reference to related Disclosures

The disclosures of Dermapharm Holding SE relating to capitalised development costs are shown in sections "2.8 Intangible assets – Capitalised development costs", "3. Estimates and judgements – Development costs" and "4.1 Intangible assets" of the notes to the consolidated financial statements.

2. Identification and measurement of the assets and liabilities transferred in the context of the Trommsdorff and Strathmann acquisitions and related note disclosures

1. Financial Statement Risk

On 2 January 2018, Dermapharm AG, a direct subsidiary of Dermapharm Holding SE, acquired the shares and limited partners' interests in Strathmann Service GmbH, Strathmann GmbH & Co. KG and Biokirch GmbH (jointly referred to as "Strathmann"). Furthermore, on 23 January 2018 Dermapharm AG acquired all the interests in Trommsdorff GmbH & Co. KG and its sole general partner, CI. Lageman Gesellschaft mit beschränkter Haftung (jointly referred to as "Trommsdorff"). These companies were included in the consolidated financial statements for the first time as at 1 January 2018 (Strathmann) and 1 February 2018 (Trommsdorff).

These acquisition transactions were completed in the financial year and accounted for as Business Combinations using the acquisition method as defined in IFRS 3. The assets, liabilities and contingent liabilities identified in the purchase price allocation process were fully recognised at their acquisition-date fair values. The first-time consolidation resulted in goodwill of the Strathmann companies in the amount of EUR 2.5 million and of the Trommsdorff companies in the amount of EUR 25.5 million.

The identification and measurement of acquired assets – in particular intangible assets such as brands and customer relationships – and liabilities is often based on discretionary assumptions of the executive directors and is therefore subject to high estimation uncertainty. Particular risks for the financial statements are also attributable to the complex assumption-based measurement methods used to determine the fair values of intangible assets in particular. In consideration of the foregoing and due to the significance of the acquisitions for the Dermapharm Group, the recognition in the financial statements of the Trommsdorff and Strathmann acquisitions completed in the financial year was of particular significance in our audit.

2. Audit Approach

As part of our audit of the presentation of the acquisitions completed in the financial year, we first evaluated the competence, capability and objectivity of the external experts engaged to carry out the purchase price allocation. With the involvement of our internal valuation experts we evaluated the appropriateness of the identification and valuation methods employed by the expert in the context of the general accounting policies and assessed the content of the applied measurement assumptions and parameters. For this purpose, for example for intangible assets the fair value of which was determined using the Relief from Royalty Approach, we compared the royalty rates used by the expert with reference values from relevant data bases. For selected valuations on the basis of planning calculations we checked the planning calculations for their arithmetical correctness and assessed the planned future revenue and cost developments, among other things, on the basis of interviews of the executive directors and of the external experts engaged to prepare the purchase price allocation. Where the calculation of a present value was relevant in the determination of the fair value, we recalculated the used capital costs and compared their underlying parameters with publicly available information.

We compared the identified assets and liabilities recognised in the consolidated statement of financial position and their fair values with the valuation reports of the external experts. Finally, we assessed whether the note disclosures relating to the Trommsdorff and Strathmann acquisitions have been presented appropriately and completely.

3. Reference to related Disclosures

The disclosures of Dermapharm Holding SE are included in the sections "2.5 Consolidation principles and group of consolidated companies" and "2.7 Business combinations" of the notes to the consolidated financial statements.

3. Impairment testing of the goodwill and of the capitalised development costs with (still) indefinite useful lives

1. Financial Statement Risk

In the consolidated statement of financial position as at 31 December 2018, Dermapharm Holding SE recognised "Goodwill" in the amount of EUR 54.6 million and capitalised development costs in the amount of EUR 40.0 million under the line item "Intangible assets", of which EUR 29.1 million were not yet subject to planned depreciation and consequently have indefinite useful lives.

Pursuant to IAS 36, an impairment test shall be performed for the goodwill and development costs. Impairment tests are performed at the level of the cash-generating units or at the level of the individual development projects. In this process the recoverable amounts of the individual cash-generating units or development projects are compared with the carrying amounts of each of the cash-generating units or development projects. The recoverable amount is determined by calculating the value in use which is based on the discounted cash flow forecasts of each of the cash-generating units or development projects. The cash flow forecasts for the impairment test of the goodwill are based on the medium-term planning of each of the cash-generating units as approved by the executive directors and the supervisory boards; the cash flow forecasts for the individual development projects are derived from the key indicators determined by the executive directors. For discounting, the discount rate is determined by using the weighted average discount rates of equivalent terms of the relevant cash generating units or development projects.

In the financial year 2018, the impairment test was performed as at 30 September 2018 (previous year: 31 December 2017 or 31 October 2017). On the basis of the impairment test, Dermapharm Holding SE reported impairment losses for capitalised development costs amounting to EUR 3.5 million.

The result of the impairment tests is highly affected by the assessment of the future cash flows, the applied discount rate and the used valuation date and is subject to considerable estimation uncertainty. Against this background and due to the complexity of the implementation of the applied valuation method, this matter was of particular significance in our audit.

2. Audit Approach

In the course of our audit we reperformed the methodology applied in the impairment tests. We convinced ourselves of the permissibility of the deferred valuation date of the annual impairment test. We compared the underlying cash flow forecasts of determining the value in use of the goodwill with the medium-term planning as approved by the executive directors and the supervisory board. By interviewing the Head of Clinical Research Departments and the executive directors we analysed the value-driving assumptions, which were used in medium-term planning and in determining the key indicators for the calculation of the values in use of the development projects, for their consistency and acceptability. In our analysis, we have incorporated our understanding of the economic environment and the current and expected conditions in the relevant markets. Additionally, we analysed the planning history by comparing the planning of the preceding years with the actual results of the financial years. In relation to the impairment test of the goodwill, we additionally evaluated the consistency in differentiating the cash-generating units.

We reperformed the calculation scheme for deriving the applied discount rates and verified the parameters included in the derivation of the discount rate with the involvement of our valuation experts. Furthermore, we analysed and assessed the consistent use of parameters and the consistent derivation of the discount rates both in comparison with the preceding year and in comparison with the purchase price allocation process.

We evaluated the sensitivity analyses performed by Dermapharm Holding SE for appropriateness. Additionally, we performed our own sensitivity analyses for selected cash-generating units; our selection of cash-generating units was based on the amount of the differences between the carrying amounts and the recoverable amounts determined as well as on qualitative aspects.

3. Reference to related Disclosures

The disclosures of Dermapharm Holding SE relating to impairment testing of goodwill and capitalised development costs are included in sections "3. Estimates and judgements – Development costs" and "4.1 Intangible assets" of the notes to the consolidated financial statements.

4. Recognition, completeness and presentation of current income taxes

1. Financial Statement Risk

In its consolidated financial statements, Dermapharm Holding SE recognised income tax expenses amounting to EUR 33.2 million in the financial year 2018. As at 31 December, tax liabilities amount to EUR 26.4 million.

The termination of the profit and loss transfer agreement between Dermapharm AG and Themis Beteiligungs-AG, the majority shareholder of Dermapharm Holding SE, effective 31 December 2017 was of key significance for the recognition of the current income tax expenses. Since 1 January 2018, Dermapharm AG for the first time has been the new tax group parent of a consolidated tax group for income tax purposes with a large part of the German entities of the Dermapharm Group, which have previously been part of the group of consolidated companies of Themis Beteiligungs-AG. Therefore, tax expenses and tax provisions for this group of consolidated companies had to be reported in the consolidated financial statements of Dermapharm Holding SE for the first time in the financial year 2018.

Due to the high amounts of the income tax items and the changes of the consolidated tax group for income tax purposes as a result of the terminated profit and loss transfer agreement, the recognition, completeness and presentation of current income taxes were a matter of particular significance in our audit.

2. Audit Approach

In our audit of the current income tax items we were supported by internal tax experts in the evaluation of the recognition of the profit and loss transfer agreements for tax purposes. We reperformed the current income tax calculations for the group of consolidated companies at the level of Dermapharm AG and for other consolidated companies which were selected on the basis of qualitative and quantitative factors and assessed whether the current income taxes resulting therefrom was correctly reported in the consolidated financial statements. We assessed the disclosures in the notes to the financial statements relating to current income tax expenses for completeness, reperformed the tax reconciliation and checked them both for arithmetical correctness and for consistency with the underlying tax calculations.

3. Reference to related Disclosures

The disclosures of Dermapharm Holding SE relating to current income tax expenses are shown in sections "2.19 Taxes on income and deferred taxes", "3. Estimates and judgements – Development costs" and "4.17 Income taxes" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises

- the Corporate Governance Statement pursuant to Section 289f and Section 315d HGB,
- the Non-financial report pursuant to Section 315 para. 1 sentence 5 HGB and
- the remaining parts of the annual report with the exception of the audited consolidated financial statements, the audited parts of the combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our group audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the audited parts of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 26 June 2018. We were engaged by the supervisory board on 22 November 2018. We have been the group auditor of Dermapharm Holding SE, Grünwald, as capital market-oriented corporation in the meaning of section 264d HGB since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Anja Zweck.

Düsseldorf, 12 April 2019

Warth & Klein Grant Thornton AG

Wirtschaftsprüfungsgesellschaft

Prof. Dr. Thomas Senger	Anja Zweck
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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