

**Combined Financial Statements as of and for fiscal years ended
31 December 2019, 2018 and 2017**

**in accordance with
International Financial Reporting Standards
(IFRS, as adopted by the EU)**

for

PharmaSGP

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**Combined statements of profit or loss and other comprehensive income for fiscal
years ended 31 December 2019, 2018 and 2017**

<u>in EUR thousand</u>	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues	7.1	62,574	60,595	53,062
Other operating income	7.2	182	203	175
Raw material, consumables and finished goods		(5,868)	(6,499)	(4,633)
Personnel expenses	7.3	(2,043)	(1,697)	(2,070)
Depreciation and amortization		(397)	(387)	(411)
Other operating expenses	7.4	<u>(32,029)</u>	<u>(32,668)</u>	<u>(30,794)</u>
EBIT		22,419	19,546	15,329
Finance income	7.5	20	4	3
Finance expenses	7.5	<u>(176)</u>	<u>(12)</u>	<u>(23)</u>
Profit before taxes		22,263	19,538	15,309
Income tax expense	6.14	<u>(5,557)</u>	<u>(4,805)</u>	<u>(3,526)</u>
Profit for the period		16,706	14,733	11,783
Other comprehensive income		—	—	—
Total comprehensive income		<u>16,706</u>	<u>14,733</u>	<u>11,783</u>

**Combined statements of financial position as of 31 December 2019, 2018, 2017
and 01 January 2017**

<u>in EUR thousand</u>	<u>Notes</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Assets					
Non-current assets					
Intangible assets	6.1	1,394	1,081	1,205	991
Property, plant and equipment.....	6.2	—	87	190	620
Right-of-use assets	6.3	254	506	—	257
Deferred tax assets.....	6.14	—	—	71	—
Total non-current assets		1,648	1,674	1,466	1,868
Current assets					
Inventories	6.4	2,096	3,268	2,508	1,618
Trade and other receivables	6.5	10,885	7,774	6,610	7,339
Other assets	6.6	102	136	271	836
Income tax assets		534	2,178	92	—
Cash and cash equivalents	6.7	88,476	77,008	73,103	47,498
Total current assets		102,093	90,364	82,584	57,291
Total assets		103,741	92,038	84,050	59,159
Shareholders' equity and liabilities					
Shareholders' equity					
Net assets attributable to shareholders	6.8	95,580	84,374	73,690	50,366
Total shareholders' equity		95,580	84,374	73,690	50,366
Non-current liabilities					
Non-current lease liabilities	6.9	—	249	—	—
Deferred tax liabilities	6.14	219	110	—	—
Total non-current liabilities		219	359	—	—
Current liabilities					
Provisions	6.10	738	1,290	1,431	1,255
Trade payables	6.11	811	1,428	2,857	1,973
Other liabilities	6.12	1,780	1,289	1,484	468
Financial liabilities	6.13	441	908	1,572	650
Lease liabilities	6.9	254	257	—	257
Income tax liabilities		3,918	2,133	3,016	4,190
Total current liabilities		7,942	7,305	10,360	8,793
Total shareholders' equity and liabilities		103,741	92,038	84,050	59,159

**Combined statements of changes in equity for fiscal years ended 31 December 2019,
2018, 2017 and 01 January 2017**

<u>in EUR thousand</u>	Notes	Net assets attributable to shareholders
Balance as of 01 January 2017		<u>50,366</u>
Profit for the period		11,783
Capital contribution	6.8	11
Shareholders contributions and distributions	6.8	<u>11,530</u>
Balance as of 31 December 2017		73,690
Balance as of 01 January 2018		73,690
Profit for the period		14,733
Shareholders contributions and distributions	6.8	(4,049)
Balance as of 31 December 2018		84,374
Balance as of 01 January 2019		84,374
Profit for the period		16,706
Dividend	6.8	<u>(5,500)</u>
Balance as of 31 December 2019		<u>95,580</u>

**Combined statements of cash flow for fiscal years ended 31 December 2019,
2018 and 2017**

in EUR thousand	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Profit for the period		16,706	14,733	11,783
Depreciation, amortization and impairment of intangible assets, PPE and right-of-use assets	6.1, 6.2, 6.3	397	387	411
(Increase)/decrease in trade and other receivables, inventories and other assets	6.4, 6.5, 6.6	(1,907)	(1,789)	404
Increase/(decrease) in trade payables and other (financial) liabilities	6.11, 6.12, 6.13	(673)	(2,294)	2,797
Increase/(decrease) in provisions	6.10	(552)	(141)	176
(Gain)/loss on disposal of non-current assets		(36)	308	(11)
Interest expense	7.5	176	12	23
Interest income	7.5	(20)	(4)	(3)
Income tax expense	6.14	5,557	4,805	3,526
Income tax payments		(2,018)	(7,593)	(4,858)
Interest received		—	4	3
Net cash flows from operating activities		17,631	8,428	14,251
Proceeds from the disposal of intangible assets and PPE		109	59	482
Payments for investments in intangible assets and PPE		(433)	(274)	(397)
Net cash flows from investing activities		(324)	(215)	85
Capital contribution	6.8	—	—	11
Dividends paid	6.8	(5,500)	—	—
Repayment of lease liabilities	6.9	(264)	(253)	(258)
Interest paid		(75)	(6)	(14)
Payments (to)/from shareholders		—	(4,049)	11,530
Net cash flows from financing activities		(5,839)	(4,308)	11,269
Net increase in cash and cash equivalents		11,468	3,905	25,605
Cash and cash equivalents as of 01 January		77,008	73,103	47,498
Cash and cash equivalents as of 31 December		88,476	77,008	73,103

Notes to the combined financial statements

Basis of preparation

Background and general information

FUTRUE GmbH (“FUTRUE”), Gräfelting, Germany, and MVH Beteiligungs- und Beratungs-GmbH (“MVH”), Gräfelting, Germany intend to list the business of their following subsidiaries via PharmaSGP Holding SE on a stock exchange: PharmaSGP GmbH (“PharmaSGP GmbH”), Remitan GmbH (“Remitan”) and Restaxil GmbH (“Restaxil”) (hereafter all together the “Group” or “PharmaSGP”). The three companies are domiciled in Germany with headquarters located in Am Haag 14, 82166 Gräfelting. In contemplation of this listing, PharmaSGP Holding SE, a shell company, has been acquired in 2020. PharmaSGP Holding SE will be the holding company of the Group and the issuer of the shares for the intended listing on a stock exchange.

Shares of PharmaSGP Holding SE are to be admitted to trading on the regulated market (regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse), Germany. In accordance with the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019, supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, companies are required to present audited historical financial information covering the latest three financial years in the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market. Accordingly, given that PharmaSGP Holding SE including the subsidiaries did not exist as consolidated group as of 31 December 2019, PharmaSGP GmbH management has prepared combined financial statements for PharmaSGP in accordance with IFRS as of and for fiscal years ended 31 December 2019, 31 December 2018, 31 December 2017 and a combined opening balance in accordance with IFRS 1, as of 01 January 2017.

These combined financial statements comprise combined statements of profit or loss and other comprehensive income, combined statements of cash flow and combined statements of changes in equity for fiscal years ended 31 December 2019, 31 December 2018 and 31 December 2017 and combined statements of financial position and notes to the combined financial statements as of and for fiscal years ended 31 December 2019, 31 December 2018, 31 December 2017 and as of 01 January 2017, collectively referred to hereafter as “combined financial statements”.

The combined financial statements are presented in euros. Amounts are stated in thousands of euros (EUR thousand) except where otherwise indicated. Rounding differences may arise when individual amounts or percentages are added together.

The combined financial statements were authorized on 28 April 2020 by management of PharmaSGP GmbH which was the preparer of the combined financials statements.

Description of the Group’s Business

PharmaSGP provides chemical-free over the counter (“OTC”) products and other consumer healthcare products. Its core brands cover relevant and chronic indications, including pain and other age related ailments.

The ultimate parent of the Group is FUTRUE. FUTRUE holds an 85% interest in PharmaSGP GmbH and Restaxil and an 84,9% interest in Remitan. The remaining shares in the three companies 15%, 15% and 15,1% respectively, are held by MVH. FUTRUE Group includes as of 31 December 2019 besides PharmaSGP GmbH, Remitan and Restaxil another 21 subsidiaries. All 24 subsidiaries together with FUTRUE GmbH represent the FUTRUE Group. As of 31 December 2018, FUTRUE Group and all its subsidiaries were included in the FUTRUE Group German Commercial Code (“HGB”) consolidated financial statements as of 31 December 2018.

Dr. Clemens Fischer controls 100% of the FUTRUE and as such, he is the ultimate controlling party for the companies.

Combined financial statements and compliance with IFRS

During the reporting periods presented, PharmaSGP is not a separate group of entities under the control of a parent as defined by IFRS 10 “Consolidated Financial Statements” and has historically not prepared consolidated financial statements for internal or external reporting purposes. PharmaSGP GmbH management has prepared these combined financial statements for the planned listing. The combined financial statements of PharmaSGP were prepared in accordance with International Financial Reporting Standards as adopted in the European Union (“IFRS”).

Since IFRS does not provide any guidance for the preparation of combined financial statements, IAS 8.10 and 8.12 have been used for the preparation of the combined financial statements. In the absence of IFRS specific guidance, IAS 8.10 requires management to use judgement in developing and applying accounting policies which produce information that is relevant to users, reliable and free from bias, and complete in all material respects. In addition, IAS 8.12 requires that the latest pronouncements of other standard setters, other accounting literature and accepted industry practice should be considered when developing accounting policies.

PharmaSGP has applied IFRS for the first time for fiscal year ended 31 December 2019 with 01 January 2017 as transition date. The combined financial statements of PharmaSGP include in the scope of combination the legal entities that will be transferred to PharmaSGP Holding SE. As the FUTRUE companies had never prepared financial statements in accordance with IFRS in the past but PharmaSGP was included in local GAAP (“HGB”) consolidated financial statements, accounting policies and measurement principles in preparing the combined financial statements have been applied as described in the respective sections below. Intra-group balances, income and expenses and unrealized gains and losses arising from transactions between legal entities in scope of the combined financial statements were eliminated when preparing the combined financial statements. Transactions between legal entities comprising PharmaSGP and the remaining FUTRUE Group companies outside the scope of combination are recognized in accordance with IFRS and classified as related party transactions. In the combined financial statements, all IFRS standards whose application was mandatory for the fiscal year 2019, have been consistently applied for each reporting period presented. IFRS 1 requires that an entity explains how the transition from HGB to IFRS affected its reported financial position, financial performance and cash flows. As PharmaSGP neither prepared nor reported a complete set of HGB financial statements in the past, these reconciliations from HGB to IFRS were not required.

The combined statements of profit or loss and other comprehensive income were prepared in accordance with the nature of expense method. Assets and liabilities are classified by maturity. They are classified as current in the combined statements of financial position if they mature within one year or within the normal business cycle of the legal entities included in PharmaSGP.

Since PharmaSGP has not constituted a group with a parent entity for the reporting periods presented, no share capital is presented in the statements of changes in equity. Instead the combined financial statements refer to net assets attributable to shareholders. The combined statements of cash flow were prepared using the indirect method to report cash flows from operating activities. The financial information for the legal entities comprising PharmaSGP was prepared as of 01 January 2017 and as of and for the fiscal years ended 31 December 2017 and 2018, using the historical book values of PharmaSGP’s assets and liabilities (to the extent applicable as used for the preparation of the consolidated financial statements of FUTRUE prepared in accordance with generally accepted accounting principles of the HGB) and adjusted for differences between generally accepted accounting principles of the HGB and IFRS.

Scope of combination

The scope of combination for the combined financial statements of PharmaSGP for the reporting periods presented was based on the legal reorganization concept. Hence, the combined financial statements include those legal entities that will be transferred to PharmaSGP Holding SE under common control of FUTRUE, by way of a contribution in kind or acquisition via cash. Hereby, the legal reorganization will take place prior to the proposed Initial Public Offering (“IPO”). All of these legal entities are ultimately controlled by FUTRUE itself.

The combined financial statements include the businesses of the three legal entities (PharmaSGP GmbH, Remitan and Restaxil) with the exception of the businesses related to Kijimea and Matrema brands. Due to the fact that Kijimea and Matrema businesses represent non-core business activities and were not continued after 2017 within the Group, these businesses have been classified as out of scope activities for the purpose of the preparation of the combined financial statements.

Effective as of 01 January 2017, PharmaSGP GmbH sold all assets and liabilities related to the Kijimea business to an affiliated company, Kijimea GmbH (since January 2017: Synformulas GmbH). Furthermore, the Matrema business, a part of Restaxil, was discontinued during 2017.

All assets and liabilities of these non-core businesses have been excluded from the opening balance sheet as of 01 January 2017. Additionally, for the years presented in the combined financial statements all effects on income and expense have been eliminated. The effects on equity as well as incoming and outgoing cash payments related to Kijimea and Matrema are presented in the combined statements of changes in equity as shareholders contributions and distributions and as a separate line item in the net cash flows from financing activities as payments to/from shareholders.

The combined financial statements may not be indicative of PharmaSGP's future performance and do not necessarily reflect what its combined results of operations, financial position and cash flows would have been had PharmaSGP operated as an independent group during the reporting periods presented.

1. Changes in accounting policies and disclosures

New standards and amendments whose application was not yet mandatory in the reporting period

The Group did not early adopt standards and interpretations as well as amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the EU which are effective for financial years beginning on or after 01 January 2020 and whose application was not yet mandatory.

The Group does not expect any material effect from the application of any standards, amendments to standards and interpretations issued but not yet mandatory in the reporting period.

2. First time adoption of IFRS

The Group prepared its combined financial statements in accordance with IFRS for the first time applicable as of 31 December 2019 together with comparative period data for fiscal years ended 31 December 2018 and 31 December 2017. The Group's date of transition to IFRS is 01 January 2017. Since the Group has never prepared combined financial statements under local GAAP, no reconciliation of profit and loss and equity to IFRS has been included in these financial statements.

The application of IFRS 1 requires that the Group adopts accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS financial statements. IFRS 1 allows first-time adopters certain exemptions from the full retrospective application of the requirements under IFRS.

The Group has applied the following exemptions:

Leases: The assessment whether a contract existing at the date of transition to IFRS contains a lease will be made on the basis of facts and circumstances existing at that date (according to IFRS 1.D9). The lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition to IFRSs and the right-of-use asset for all leases will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the combined statements of financial position immediately before the date of transition to IFRSs according to IFRS 1.D9B(b)(ii).

The Group will use a single discount rate for all real estate leases and a single rate for vehicle leases. Moreover, no right-of-use asset and lease liability will be recognized for leases with a remaining lease term of less than 12 months as of the date of transition to IFRSs and instead they are accounted for as if they were short-term leases (IFRS 1.D9D(b)), except for real estate leases. Moreover, hindsight will be used to determine the lease term (IFRS 1.D9D(e)).

Revenue recognition: The Group has applied all the exemptions described in IFRS 15.C5-C6, therefore contracts that begin and end within the same annual reporting period or are completed contracts at the beginning of the earliest period presented will not be restated. Contracts that were modified before the beginning of the earliest period presented, will not be retrospectively restated and instead the aggregate effect of all modifications that occur before the beginning of the earliest period presented will be reflected.

No other exemptions from full retrospective application of the IFRS requirements are exercised by the Group.

3. Summary of significant accounting policies

3.1 Current versus non-current classification

Assets and liabilities are presented in the combined statements of financial position based on a current/non-current classification.

Assets are classified as current in the combined statements of financial position when they are expected to be sold, consumed or realized during the normal business cycle of the legal entities included in the Group or if they mature within one year after the reporting period. All other assets are classified as non-current.

Liabilities are current if they are expected to be settled in the normal business cycle or within one year after the reporting period. All other liabilities are classified as non-current.

Inventories are consistently presented as current. Deferred tax assets and liabilities are classified as non-current in accordance with IAS 1.

3.2 Revenue from contracts with customers

The Group's primary business is the sale of chemical-free OTC products and other consumer healthcare products. Goods are sourced from contract manufacturers. In many cases, those manufacturers also handle the sourcing of the required raw materials. Finished products are shipped directly from these manufacturers to the logistics center of a third-party logistics provider in each country. These providers store PharmaSGP's products in their warehouses and distribute to wholesalers as well as larger pharmacies on account of PharmaSGP or on their own account. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

All revenues of the Group qualify as contracts with customers and fall in the scope of IFRS 15. Revenue is recognized at a point in time when the control of the good is transferred to the customer, which is normally upon delivery.

The Group considers whether there are other commitments in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. The Group assesses all promised goods and services and identifies performance obligations at contract inception. Contracts with customers include a single performance obligation, i.e. the sale of pharmaceutical products. In determining the transaction price for the sale of pharmaceutical products, the Group considers the effects of variable consideration and the existence of consideration payable to the customer (if any).

No element of financing is deemed present since time between recognition of revenue and cash receipt does not exceed one year, which is consistent with market practice.

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts provide customers for specific products with a right to return the goods within a specified period, generally up to six months. The rights of return give rise to variable consideration.

Assets and liabilities arising from rights of return

Right of return assets

An asset is recognized for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset in case of e.g. revisions to the expected level of returns or any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is recognized for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from customers' right of return. The liability is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

3.3 Foreign currency

The combined financial statements are presented in euros, which is the functional currency. Transactions that are denominated or required to be settled in a currency other than the functional currency are initially recorded at the functional currency applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period all monetary items denominated in a foreign currency will be translated to euros using the closing rate. Foreign currency differences are recognized in profit or loss.

3.4 Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets

are carried at cost less accumulated amortization and accumulated impairment losses, if any.

In line with the business model of the Group, one focus of the Group is the development of products using active pharmaceutical ingredients which, as a rule, are not patent-protected. When a new pharmaceutical product seems technically and economically feasible, marketing authorizations (Arzneimittelzulassungen) have to be obtained, either by internal development or external acquisition. Development costs for pharmaceutical products are capitalized if they are part of the development phase and fulfill the criteria in IAS 38.65. Group's intangible assets primarily comprise external costs incurred for the drug approval process.

The Group's intangible assets do not comprise intangible assets with indefinite useful lives. Development and authorization proceedings which comprise capitalized development costs that are mainly related to pharmaceutical products subject to regulatory approval are tested for impairment on an annual basis.

Intangible assets are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization starts when the development and authorization proceedings are finalized. The amortization period is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss.

Amortization of intangible assets is primarily based on their useful lives of ten years. Amortization amounts are calculated on a straight-line basis.

Impairment testing is carried out by comparing the carrying amount of an asset to its recoverable amount which is the higher of an asset's fair value less costs to disposal and the value in use. An impairment is recognized through profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. If the reasons for the impairment do no longer exist, the impairment is reversed. The increased carrying amount of an asset shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years. In cases where it is no longer probable that a marketing authorization can be obtained for a certain product, the recoverable amount of the asset is deemed to be zero and it is impaired in full.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the combined statements of profit or loss and other comprehensive income when the asset is derecognized.

3.5 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes any expenditures that are directly attributable to the acquisition of the asset, including costs incurred to prepare the asset for its intended use.

Property, plant and equipment are depreciated on a straight-line basis over each asset's expected useful life. Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which is typically between three and ten years.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the combined statements of profit or loss and other comprehensive income when the asset is derecognized.

The Group assesses property, plant and equipment, net for impairment whenever there is an indication of potential impairment.

3.6 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is the case, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group adopted IFRS 16 effective 01 January 2017, using the modified retrospective method.

The Group recognizes lease liabilities and right-of-use assets representing the right to use the underlying assets for all leases except for leases with an original lease term of 12 months or less (short-term leases) and leases of assets of low value. The lease payments associated with those short-term leases are recognized as an expense on a systematic

basis over the lease term.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized.

After the commencement date, the Group measures right-of-use assets at cost less accumulated depreciation, any accumulated impairment losses and adjusted for any remeasurement of lease liabilities. Scheduled depreciation of right-of-use assets is made on a straight-line basis over the anticipated useful life or the shorter contract term.

The right-of-use assets are also subject to impairment. To date, no impairment losses have been identified on the Group's right-of-use assets.

Lease Liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. To determine the present value, the Group discounts the remaining lease payments with the incremental borrowing rate of the lessee. The lease payments include fixed payments.

The lease term comprises the non-cancellable period of the lease together with periods covered by an extension option if the lessee is reasonably certain to exercise the option and periods covered by a termination option if the lessee is reasonably certain not to exercise that option. If the lessee and the lessor each has the right to terminate the lease with no more than an insignificant penalty, the date of the mutual termination option shall be deemed the end of the lease term.

The incremental borrowing rate is the interest rate that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset as the underlying lease agreement in a similar economic environment. The Group applied incremental borrowing rates between 0.00% and 1.98% for the periods presented.

Lease payments are allocated between principal and finance expenses. The finance expense is recognized within profit or loss.

3.7 Inventories

Inventories include raw materials, consumables and supplies and finished goods.

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes expenditure incurred in acquiring the inventories. Costs for raw materials and consumables are valued using the moving average method. Net realizable value for finished goods is mainly based on the expiration date.

3.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank deposits held with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. They are measured at their amortized cost. Negative interest for the existing bank balances is included in interest expense.

3.9 Provisions

Provisions are recognized pursuant to IAS 37, provided the following conditions have been cumulatively met: the Group has a present legal or constructive obligation, this obligation is the result of a past event, it is more likely than not that the settling of this obligation will lead to an outflow of resources and the amount can be reliably measured. The amount recognized as a provision represents management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The Group is exposed to product liability claims, regulatory action and litigation which could result in a legally required recall of affected products or individual returns of e.g. damaged products. To reflect this risk, warranty provisions are recognized taking into account past experience, current sales level and other current information available (such as developments in the regulatory environment). Provisions related to those risks are assurance-type warranties and recognized when the product is sold. It is expected that the costs will be incurred in the next financial year. The estimate of the related costs is revised on a regular basis.

Significant judgement is involved in the determination of warranty provisions (Note 4).

3.10 Employee benefits

Wages, salaries and social security charges are recognized in the profit and loss account according to the terms of employment, to the extent they are due to either employees or the tax authorities. Unused vacation liabilities accrued in the combined financial statements represents estimated total provision for potential liabilities related to employees' unused vacation days as of the balance sheet date. Bonus liabilities are calculated in general based on the Group's performance for the fiscal year and each individual's personal bonus agreements from the beginning of the year and accrued in the combined financial statements for the respective year.

3.11 Current and deferred income tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate. In case of uncertainties related to income taxes, they are accounted for in accordance with IFRIC 23 and IAS 12.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, and any carry forward of unused tax losses to the extent it is probable that sufficient taxable profit will be available in future years.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The Group establishes tax liabilities on the basis of expected tax payments. Liabilities for trade taxes, corporate taxes and similar taxes on income are determined based on the taxable income of the combined entities less any prepayments made. Calculation of tax liabilities is based on the recent tax rates applicable in the tax jurisdiction of the Group.

3.12 Financial instruments – Initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. During the periods presented the Group held only non-derivative financial instruments.

Non-derivative financial instruments are recognized when the Group becomes party to the contractual provisions of the financial instrument. Purchases or sales of financial assets that require delivery of financial assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the settlement date, i.e. the date that a financial asset is delivered to or by an entity.

Classification and subsequent measurement

Subsequent measurement depends on the category to which each financial instrument has to be assigned on initial recognition.

Financial assets

Financial assets have to be classified into the following categories according to IFRS 9:

- Financial assets at amortized cost (AC)
- Financial assets at fair value through profit or loss (FVPL)
- Financial assets at fair value through other comprehensive income (FVOCI)

The classification of financial assets depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Financial assets are classified as measured at amortized cost only when they are held exclusively to collect the contractual cash flows and when their contractual terms comprise cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets of the Group fulfil these requirements and are therefore classified at amortized cost.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the financial asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, trade receivables, and loans to shareholders included under other non-current financial assets.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for its financial assets measured at amortized cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

For trade receivables, the simplified approach has to be applied in calculating ECLs. Under this approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Group in general considers a financial asset in default when contractual payments are significantly past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group or vice versa (no impairment even if the financial asset is significantly overdue in case of contrary indications). A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Impairment losses, including reversals of impairment losses or impairment gains, are presented as other expense in the combined statements of profit or loss and other comprehensive income.

Financial Liabilities

Financial liabilities are classified as measured at amortized cost (FLAC) or fair value through profit or loss (FVPL). A financial liability is classified as at FVPL if it is classified as held-for-trading, a derivative or designated as such on initial recognition (fair value option); the Group does not use the fair value option for financial liabilities.

The Group's financial liabilities include trade payables and other financial liabilities, which are all classified as measured at amortized cost. These financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on de-recognition is also recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are only offset and presented net in the combined statements of financial position when the Group has a legally enforceable right to offset the recognized amounts and intends either to

settle on a net basis or to realize the asset and settle the liability simultaneously. The Group might also enter into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from these assets expired or the Group has transferred substantially all the risks and rewards or has neither transferred nor retained substantially all the risks and rewards but transferred the control of the assets. When the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize transferred assets to the extent of its continuing involvement. An associated liability is also recognized in that case. The measurement of the transferred assets and the associated has to reflect the rights and obligations that the Group has retained.

A financial liability is derecognized when the contractual obligations under the liability are discharged, cancelled or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Upon derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

3.13 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Based on the input parameters used for valuation the fair values have to be assigned to one of the following levels of the fair value hierarchy:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets and liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

4. Significant accounting judgments, estimates and assumptions

Judgments, estimates and assumptions are continuously 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 recognized prospectively.

The Group makes judgments, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that could result in outcomes requiring a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Provisions for warranties

The Group offers assurance-type warranties, that need to be accounted for in accordance with IAS 37. Assurance-type related return rights exist basically in case of deficiencies of the product (wrong product has been delivered, delivered product has been damaged during transportation, product is not allowed to be sold anymore due to regulatory issues etc.). Therefore, the Group is exclusively liable for claims of third parties arising from product liability (warranty claims). Accordingly, a provision is recognized in the amount of the best estimate of the obligation resulting from the return. To estimate the amount on the warranty provision the quantity of outstanding products in the market is estimated based on external available data. To reflect the risk of return the Group defines percentages per return category which are applied on the value of outstanding products in the market. The percentages are reviewed regularly to reflect current developments.

In a case of unexpected changes in market conditions, warranty provision estimations are subject to change as they are calculated based on the estimation and assumptions of the Group.

In 2019, the positive outcome of a favorable court ruling as well as optimizations to the portfolio of third-party manufacturers are the main drivers for the reduction of the provisions for warranties amounting to EUR 467 thousand, which was recorded in other operating expense.

Provisions for warranties are estimated based on management's current knowledge and expectations.

Refund liability

The Group offers its customers rights to return products which are accounted for as a sale with a right to return under IFRS 15. Some of these rights arise from newly launched products which may be returned within a contractually agreed period. Refund may also arise from regulatory, competitive or market related developments which could result in customers returning affected products. In those cases, a refund liability is recognized for the obligation to refund some or all of the consideration received from a customer at the amount the Group ultimately expects it will have to return to the customer. To estimate the amount of the refund liability the number of outstanding products in the market is estimated based on external available data. To reflect the risk of return the Group defines percentages per return category which are applied on the quantity of outstanding products in the market. The percentages are reviewed regularly to reflect current developments, e.g. resulting from ongoing regulatory changes or changes in the competitive environment.

In a case of unexpected changes in market conditions, refund liability estimations are subject to change as they are calculated based on the estimation and assumptions of the Group.

In 2019, the decrease in the refund liability amounting to EUR 467 thousand resulted mainly from a favorable court ruling, which was recorded as a corresponding increase in revenues amounting to EUR 467 thousand.

The refund liabilities are estimated based on management's current knowledge and expectations.

Intangible assets

The Group recognizes intangible assets for pharmaceutical products subject to regulatory approval. To assess if the criteria in IAS 38 for recognition is met judgment is needed with regard to the probability if the regulatory approval will be achieved. The estimations are reviewed regularly to reflect changes also having an impact on already recognized development and authorization proceedings. Once the authorization of already capitalized development and authorization proceedings is no longer probable, they are impaired in full.

5. Segment report information

General information

The Group has one operating segment including all products of the Group companies. This assessment is based on information reported to the Group's Chief Operating Decision Maker (CODM) for the purpose of assessing segmental performance and resource allocation. The Management Board is the CODM and monitors the entity's performance. Performance is measured using revenues and earnings before interest and taxes ("EBIT") as key performance indicators in order to assess the success of the Group's business. Segment Assets and Segment Profit is reported in the combined statements of financial position and the combined statements of profit or loss and other comprehensive income.

Geographical information

<u>Revenues in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Germany	45,820	47,057	47,465
Italy	7,375	5,784	1,601
Other European countries (1)	9,379	7,754	3,996
Total	<u>62,574</u>	<u>60,595</u>	<u>53,062</u>

⁽¹⁾ Comprises: Austria, France, Belgium and Spain.

Basis for the revenues number is the country where the customer is located.

All non-current assets of the Group are located in Germany.

PharmaSGP maintains business relationships with major logistics partners per country. The following table includes all revenues from transactions with a single external logistics partner with a share of 10 per cent or more of the Group's revenues.

Major customers (logistics partners and other customers)

<u>Revenues in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Logistics Partner A.....	42,615	43,769	45,061
Logistics Partner B.....	7,375	5,784	1,601
Other logistics partners and customers	12,584	11,042	6,400
Total	<u>62,574</u>	<u>60,595</u>	<u>53,062</u>

Commercial and other risks like risk of impairment of trade receivables is not necessarily depending on logistics partners, as the logistics partners act partly on account of PharmaSGP and partly on their own account. The concentration on a small number of logistics partners is customary to the industry and corresponding wholesalers and pharmacies mitigate potential cluster risks for PharmaSGP.

6. Notes to the combined statements of financial position

6.1 Intangible assets

The Group has intangible assets with a finite useful life, consisting of development and authorization proceedings, developed as well as acquired marketing authorizations. Amortization expense of the intangible assets is entirely classified within depreciation and amortization in the combined statements of profit or loss and other comprehensive income.

The following table presents the changes in the Group's intangible assets during fiscal years ended 31 December 2019, 2018 and 2017:

<u>in EUR thousand</u>	<u>Developed authorizations</u>	<u>Acquired authorizations and other acquired intangible assets</u>	<u>Development and authorization proceedings</u>	<u>Total</u>
Acquisition and production costs				
01 January 2017	10	756	414	1,180
Additions	—	164	223	387
Disposals	(9)	(115)	—	(124)
Reclassifications	—	—	—	—
31 December 2017	1	805	637	1,443
Additions	32	8	233	273
Disposals	—	(29)	(3)	(32)
Reclassifications	193	(71)	(123)	(1)
31 December 2018	226	713	744	1,683
Additions	116	176	141	433
Disposals	—	(1)	—	(1)
Reclassifications	233	22	(256)	(1)
31 December 2019	575	910	629	2,114
Accumulated amortization and impairment				
01 January 2017	1	188	—	189
Additions	—	92	—	92
Disposals	(1)	(42)	—	(43)
31 December 2017	—	238	—	238
Additions	27	67	273	367
Disposals	—	(3)	—	(3)
31 December 2018	27	302	273	602
Additions	26	92	—	118
Disposals	—	—	—	—
31 December 2019	53	394	273	720
Net book value as of 01 January 2017	9	568	414	991
Net book value as of 31 December 2017	1	567	637	1,205
Net book value as of 31 December 2018	199	411	471	1,081
Net book value as of 31 December 2019	522	516	356	1,394

In 2018 development and authorization proceedings amounting to EUR 273 thousand have been fully impaired to zero due to changes in the assessment of future benefits arising from the assets. As a result of the change in the assessment of future benefits the development for these products was not further pursued and the recoverable amount determined based on the value in use was deemed to be zero.

6.2 Property, plant and equipment

Changes in property, plant and equipment during the presented fiscal years are as follows:

<u>in EUR thousand</u>	<u>Total</u>
Acquisition and production costs	
01 January 2017	787
Additions	10
Disposals.....	(540)
31 December 2017	257
Additions	—
Disposals.....	(95)
31 December 2018	162
Additions	—
Disposals.....	(124)
31 December 2019	38
Accumulated depreciation and impairment	
01 January 2017	167
Additions	62
Disposals.....	(162)
31 December 2017	67
Additions	38
Disposals.....	(30)
31 December 2018	75
Additions	15
Disposals.....	(52)
31 December 2019	38
Net book value as of 01 January 2017	620
Net book value as of 31 December 2017	190
Net book value as of 31 December 2018	87
Net book value as of 31 December 2019	—

Property, plant and equipment includes mainly other office equipment and company cars.

Disposals in 2017 mainly relate to office equipment and company cars.

6.3 Right-of-use asset

Changes in the right-of-use assets for the presented fiscal years are as follows:

<u>in EUR thousand</u>	<u>Cars</u>	<u>Office space</u>	<u>Total</u>
01 January 2017	—	257	257
Additions	—	1	1
Depreciation expense.....	—	(258)	(258)
31 December 2017	—	—	—
Additions	25	734	759
Depreciation expense.....	(8)	(245)	(253)
31 December 2018	17	489	506
Additions	12	—	12
Depreciation expense.....	(19)	(245)	(264)
31 December 2019	10	244	254

The total cash outflow for leases amounted to EUR 264 thousand in fiscal year 2019 (2018: EUR 253 thousand; 2017: EUR 258 thousand).

6.4 Inventories

Inventory consists of raw materials and supplies, consumables and finished goods.

<u>in EUR thousand</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Raw material, consumables and supplies.....	562	696	231	74
Finished goods.....	1,534	2,572	2,277	1,444
Inventories	2,096	3,268	2,508	1,618

Write-down on inventories included in profit and loss amount to EUR 274 thousand in 2019 (2018: EUR 318 thousand, 2017: EUR 92 thousand).

Finished goods include right of return assets relating to existing return rights of the customers amounting to EUR 22 thousand as of 31 December 2019 (31 December 2018: EUR 45 thousand; 31 December 2017: EUR 46 thousand; 01 January 2017: EUR 33 thousand).

6.5 Trade and other receivables

Details of Trade and other receivables as of 31 December 2019, 2018, 2017 and as of 01 January 2017 were as follow:

<u>in EUR thousand</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Trade receivables, gross	9,188	7,142	5,021	6,800
Less provision for impairment of trade receivables	—	—	(1)	(8)
Other receivables	1,697	632	1,590	548
Trade and other receivables	10,885	7,774	6,610	7,339

Trade receivables are in general due within a payment period between 8 and 75 days and bear no interest. There are no limitations of any kind on rights of disposal. All trade receivables are expected to be fully recovered. As of 31 December 2019, 2018 and 2017 other receivables mainly include receivables for marketing reimbursements.

Disclosures on credit risk of Trade and other receivables can be found in Note 8.

6.6 Other assets

Other assets mainly consist of VAT receivables and deferred expenses.

6.7 Cash and cash equivalents

Cash and cash equivalents represent cash balances at different banks. As of 31 December 2019, 2018 and 2017 there were no term deposits, bank overdrafts and no restricted cash.

The combined statements of cash flow show how cash and cash equivalents held by the Group changed in the respective year. Cash flows are classified for this purpose in accordance with IAS 7 as cash flow from operating activities, investing activities and financing activities. Cash for the purpose of the cash flow statement equals the amount in the combined statements of financial position line item.

6.8 Net assets attributable to shareholders

The equity consists of net assets attributable to shareholders. Net assets attributable to shareholders represent historical investments in the Group companies, the net effect of transactions with and allocations from the entities and the entities' accumulated earnings.

Not paid in equity amounts to EUR 25 thousand as of 31 December 2019 (31 December 2018: EUR 25 thousand; 31 December 2017: EUR 25 thousand; 01 January 2017: EUR 36 thousand).

In 2017 and 2018, the combined statements of changes in equity includes shareholders contributions and distributions resulting from the elimination of the Kijimea and Matrema businesses in the combined financial statements. For further information please refer to the Basis of preparation. In 2019, shareholders received a dividend amounting to EUR 5,500 thousand. For further information on the change in equity, please refer to the combined statements of changes in equity.

Capital management for the Group was performed by FUTRUE and includes the consideration of legal requirements relating to the equity and liquidity requirements during the periods presented. Thereby the target is to continuously increase its enterprise value and safeguard a strong capital base to maintain market confidence and provide returns for shareholders and benefits for other stakeholders. The Group is not subject to any externally imposed capital requirements. Group's total capital defined for capital management purposes is the sum of equity and cash and cash equivalents. The Group manages its operating capital structure and makes adjustments to it based on economic conditions and risks associated with its business.

6.9 Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the presented fiscal years:

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
As of 01 January	506	—	257
Additions	12	759	1
Accretion of interest	—	—	—
Payments.....	(264)	(253)	(258)
As of 31 December	254	506	—
Current	254	257	—
Non-current	—	249	—

As of 31 December 2017, the existing real estate lease contract expired and a new contract was concluded in 2018.

The following amounts are recognized in profit or loss during the respective period:

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Depreciation	(264)	(253)	(258)
Interest expense	—	—	—
Expense relating to short-term leases	—	(2)	(2)
Total	(264)	(255)	(260)

In 2019, 2018 and 2017 there were no expenses for leases of low value assets.

For future minimum lease payments reference is made to note 8 Financial instruments and financial risk management.

6.10 Provisions

Provisions and movement of provision comprise of the following during the presented fiscal years:

<u>in EUR thousand</u>	<u>Warranty</u>	<u>Others</u>	<u>Total</u>
01 January 2017	650	605	1,255
Additions	735	397	1,132
Utilized	(473)	(396)	(869)
Unused amounts reversed	—	(87)	(87)
31 December 2017	912	519	1,431
Additions	195	273	468
Utilized	(199)	(324)	(523)
Unused amounts reversed	—	(86)	(86)
31 December 2018	908	382	1,290
Additions	—	199	199
Utilized	(223)	(277)	(500)
Unused amounts reversed	(244)	(7)	(251)
31 December 2019	441	297	738

The Group is exposed to product liability claims, regulatory action and litigation which could result in a legally required recall of affected products or individual returns of defect products. To reflect this risk, provisions of warranties are recognized. In 2019, the provisions for warranties decreased significantly mainly due to a favorable court ruling, as well as optimizations to the portfolio of third party manufacturers. Other provisions mainly include outstanding charges for development and authorization proceedings, employee related and legal costs.

6.11 Trade payables

Trade payables are recognized for liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid.

Trade payables to parties outside the Group are unsecured, do not bear interest and generally are settled between 0 and 60 days of recognition.

6.12 Other liabilities

Other liabilities comprise of the following as of 31 December 2019, 2018, 2017 and as of 1 January 2017:

<u>in EUR thousand</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Taxes and duties	1,412	755	1,032	421
Outstanding Invoices	262	363	79	—
Others	106	171	373	47
Other liabilities	1,780	1,289	1,484	468

6.13 Financial liabilities

<u>in EUR thousand</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Refund liabilities	441	908	912	650
Shareholder loan	—	—	660	—
Financial liabilities	441	908	1,572	650

Financial liabilities consist of loans from shareholders and a refund liability. The shareholder loan was classified as current as both parties had the right to terminate the contract within a short period of time. The loan was interest-bearing with a fixed interest rate and has been repaid in 2018. For expected product returns in the future the Group recognizes a refund liability vis-à-vis the customer.

6.14. Income taxes and deferred taxes

The Company's taxable income, whether distributed or retained, is generally subject to German corporate income tax at a uniform rate of 15% for corporate tax and 8.75% for trade tax plus the solidarity surcharge of 0.83% thereon, resulting in a total tax rate of 24.58%.

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current income taxes	(5,447)	(4,624)	(3,598)
Deferred income taxes	(110)	(181)	72
Income tax expense	(5,557)	(4,805)	(3,526)

Tax liabilities result from current income taxes. The Group recognizes liabilities for potential tax risks on the basis of the best estimate of the liability. For the years 2012 until 2015 PharmaSGP is subject to an income tax audit. As the results of the income tax audit can be estimated reliably, the income tax liability as of 31 December 2019 reflects the results of the tax audit for the years 2012 until 2015 including a rollforward for the years 2016 until 2019 for the Group.

Reconciliation of tax expense and the accounting profit multiplied by the Group's domestic tax rate for the fiscal years ended 31 December 2019, 2018 and 2017:

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Profit before taxes	22,262	19,538	15,310
Groups's statutory income tax rate	24.6%	24.6%	24.6%
Expected tax expense	5,471	4,802	3,762
Effects due to local tax based additions	2	1	1
Non deductible expenses	18	0	0
Utilization of previously unrecognized tax losses	—	—	(181)
Current taxes related to other periods	214	—	—
Deferred taxes related to other periods	(85)	—	—
Others	(63)	3	(57)
Income tax expense	5,557	4,805	3,526
Effective income tax rate	25.0%	24.6%	23.0%

The utilization of previously unrecognized tax losses refers to the non-core Matrema business excluded from the combined financial statements.

The Group's deferred tax balance for each of the fiscal years presented consisted of the following:

<u>in EUR thousand</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Deferred tax asset				
Lease liabilities.....	62	125	—	63
Tax adjustment related to previous years	—	91	39	—
Other provisions	—	50	32	—
Trade payables				
Total	62	265	71	63
Deferred tax liability				
Intangible assets.....	(219)	(165)		
Right of use assets	(62)	(125)	—	(63)
Trade payables	—	(85)	—	—
Total.....	(281)	(375)	71	(63)
Netting.....	62	265		63
Total after netting.....	(219)	(110)	71	—

The changes in deferred tax assets (“DTA”) and deferred tax liabilities (“DTL”) were recognized entirely as income during 2019, 2018 and 2017.

7. Notes to the combined statements of profit or loss and other comprehensive income

7.1 Revenue

Germany is the home market of the companies and accounts for the largest share of sales 73.2% in 2019 (2018: 77.7%, 2017: 89.5%). The remaining 26.8% in 2019 (2018: 22.3%, 2017: 10.5%) of total sales is divided across France, Austria, Italy, Belgium and Spain, whereas Austria and Italy account for the major share of sales of these countries. Sales in other countries are, like in Germany, carried out by logistics partners.

Revenue by major customers is detailed in Note 5.

7.2 Other operating income

Other operating income for each of the fiscal years presented consisted of the following:

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gain from sale of property, plant and intangibles	55	—	11
Miscellaneous	127	203	164
Other operating income	182	203	175

Miscellaneous other operating income mainly includes benefits in kind and refunds from the expenditure compensation act.

7.3 Personnel expenses

The average number of employees (full-time equivalent) for 2019 was 30 (2018: 28, 2017: 30).

Personnel expenses for each of the fiscal years presented consisted of the following:

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Wages and salaries	(1,724)	(1,457)	(1,743)
Social security contributions	(319)	(240)	(327)
Personnel expenses	(2,043)	(1,697)	(2,070)

7.4 Other operating expenses

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Marketing	(27,824)	(26,960)	(26,364)
External services	(2,119)	(1,719)	(794)
Miscellaneous	(2,086)	(3,989)	(3,636)
Other operating expenses	(32,029)	(32,668)	(30,794)

External services include holding services and other selling related expenses. Miscellaneous other operating expenses relates to expenses incurred for quality control, intercompany services, legal and consulting fees, expenses for returns, travel expenses, product development and diverse other expenses.

7.5 Finance income and expenses

Finance income and expense are recognized in profit or loss using the effective interest method. Finance expense consist of mainly interest expense for income tax payables and negative interest on cash balances. Interest income mainly consist of interest income from excess paid income taxes.

8. Financial instruments and financial risk management

Additional disclosure on financial instruments

The following table shows the carrying amounts of financial assets and financial liabilities by category.

Financial instruments as of 31 December 2019, 2018 and 2017 and 01 January 2017 were as follows:

<u>in EUR thousand</u>	<u>Carrying amount</u>	<u>Category in accordance with IFRS 9</u>	<u>IFRS 16</u>	<u>Fair Value</u>
01 January 2017				
Financial assets				
Current financial assets				
Trade and other receivables	7,339	Amortized costs		7,339
thereof trade receivables.....	6,791	Amortized costs		6,791
thereof other receivables	548	Amortized costs		548
Cash and cash equivalents	47,498	Amortized costs		47,498
Financial liabilities				
Non-current financial liabilities				
Lease liabilities			257	
Current financial liabilities				
Financial liabilities.....	650	Amortized costs		650
Lease liabilities			257	
Trade payables	1,973	Amortized costs		1,973
	<u>1,973</u>	<u>Amortized costs</u>		<u>1,973</u>
31 December 2017				
Financial assets				
Current financial assets				
Trade and other receivables	6,610	Amortized costs		6,610
thereof trade receivables.....	5,020	Amortized costs		5,020
thereof other receivables	1,590	Amortized costs		1,590
Cash and cash equivalents	73,103	Amortized costs		73,103
Financial liabilities				
Non-current financial liabilities				
Lease liabilities			—	
Current financial liabilities				
Financial liabilities.....	1,572	Amortized costs		1,572
Lease liabilities			—	
Trade payables	2,857	Amortized costs		2,857
	<u>2,857</u>	<u>Amortized costs</u>		<u>2,857</u>

<u>in EUR thousand</u>	<u>Carrying amount</u>	<u>Category in accordance with IFRS 9</u>	<u>IFRS 16</u>	<u>Fair Value</u>
31 December 2018				
Financial assets				
Current financial assets				
Trade and other receivables	7,774	Amortized costs		7,774
thereof trade receivables.....	7,142	Amortized costs		7,142
thereof other receivables	632	Amortized costs		632
Cash and cash equivalents	77,008	Amortized costs		77,008
Financial liabilities				
Non-current financial liabilities				
Lease liabilities			249	
Current financial liabilities				
Financial liabilities.....	908	Amortized costs		908
Lease liabilities			257	
Trade payables	1,428	Amortized costs		1,428
<u>in EUR thousand</u>	<u>Carrying amount</u>	<u>Category in accordance with IFRS 9</u>	<u>IFRS 16</u>	<u>Fair Value</u>
31 December 2019				
Financial assets				
Current financial asset				
Trade and other receivables	10,885	Amortized costs		10,885
thereof trade receivables.....	9,188	Amortized costs		9,188
thereof other receivables	1,697	Amortized costs		1,697
Cash and cash equivalents	88,476	Amortized costs		88,476
Financial liabilities				
Non-current financial liabilities				
Lease liabilities			—	
Current financial liabilities				
Financial liabilities.....	441	Amortized costs		441
Lease liabilities			254	
Trade payables	811	Amortized costs		811

The carrying amounts of each of the measurement categories listed above and defined by IFRS 9 as of 31 December 2019, 2018 and 2017 and 01 January 2017 were as follows:

<u>in EUR thousand</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Financial assets measured at amortized cost (AC).....	99,361	84,782	79,713	54,837
Financial liabilities measured at amortized cost (FLAC)	<u>1,252</u>	<u>2,336</u>	<u>4,429</u>	<u>2,623</u>

Due to their short nature the carrying amounts of cash and cash equivalents, trade and other receivables and trade payables approximate their fair value.

For the shareholder loan the carrying amount also approximates its fair value due to its short-term nature and a remaining term less than one year. As the Group does not meet the criteria for offsetting, no financial instruments are netted.

Net gains or losses

The table below shows the net gains or losses of financial instruments per measurement categories defined by IFRS 9:

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Financial assets measured at amortized cost (AC)	(78)	(6)	(6)
Financial liabilities measured at amortized cost (FLAC)	(0)	(6)	(14)
Total	<u>(78)</u>	<u>(12)</u>	<u>(20)</u>

Net gains/losses on financial assets at amortized cost mainly include (negative) interest on cash balances, impairments on trade receivables and currency translation differences. Net gains/losses on financial liabilities at amortized cost include interest expenses.

Interest income and expenses

Total interest income and total interest expense are calculated by applying the effective interest rate to the gross carrying amount of financial assets and liabilities measured at amortized cost. Interest expense on financial assets in FY 2019 results from negative interest rates on bank balances. Total interest income and expenses were as follows:

<u>in EUR thousand</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Financial assets measured at amortized cost (AC)			
Interest income	—	4	3
Interest expense	75)	—	—
Financial liabilities measured at amortized cost (FLAC)			
Interest expense	—	(6)	(14)
Total	<u>(75)</u>	<u>(2)</u>	<u>(11)</u>

Financial risk management

Establishment and oversight over the Group's financial risk management is the responsibility of the management. Appropriate policies to identify and analyze the risks the Group faces and controls to monitor those risks are established. The risk management policies are reviewed regularly to incorporate changes on the Group's activities and in market conditions aiming at maintaining a working control environment where everyone understands their role and responsibilities.

The Group might be exposed to the following risks relating to financial instruments:

Market risk

Changes in market prices, such as foreign exchange rates or interest rates can affect the Group's income or the value of its holdings of financial instruments, if any, and are summarized as market risk. These risks are managed by the Group on a centralized basis in order to control exposure to market risks within acceptable parameters and while optimizing returns.

Since the exposure to market risks is very limited for the Group no hedging is applied.

Because the Group is not impacted to market risks due to immateriality no sensitivity analysis is required.

Foreign currency risk

Currency risk is one major market risk factor when transactions are or will not be denominated in the functional currency, because of potentially unfavorable currency exchange rates. Since the Group mainly operates in Euro countries, and all entities have the same functional currency, the Group is not significantly exposed to exchange rates fluctuations with respect to its transactions.

Interest rate risk

Interest rate risk is a risk factor associated with interest bearing financial instruments and includes the effect of positive or negative interest rate changes on profit, cash flows or equity. Typically, those risks arise from financial liabilities and increase interest expense resulting from fluctuations in interest rates. As the Group does not hold any financial liability with variable interest rates, there is no interest rate risk related to financial liabilities. On the other hand, the Group's cash at banks subject to variable interest rates. Due to negative interest rates, the Group recognized interest expenses amounting to EUR 75 thousand in the combined statements of profit or loss and other comprehensive income in 2019 (2018: EUR 0 thousand; 2017: EUR 0 thousand).

However, since the maturity of the cash at bank is short-term, there is no interest rate risk associated with cash.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Financial liabilities include mainly trade payables as well as lease liabilities. Until 2018 financial liabilities also included a loan from shareholders. Considering that in 2019 the Group does not have long-term financial liabilities liquidity risk is minimized as of the date of the combined statements of financial position

The following table shows undiscounted contractually agreed future cash outflows from financial liabilities (maturity analysis) as of 31 December 2019, 2018, 2017 and as of 01 January 2017:

<u>in EUR thousand</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>01 January 2017</u>
Lease liabilities				
Remaining term 1 year or less.....	254	257	—	257
Remaining term 1 to 5 years.....	—	249	—	—
Total	254	506	—	257
Carrying amount	254	506	—	257
Financial liabilities				
Remaining term 1 year or less.....	441	908	1,572	650
Remaining term 1 to 5 years.....	—	—	—	—
Total	441	908	1,572	650
Carrying amount	441	908	1,572	650

Trade payables as well as other liabilities are all short-term at each reporting date.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk comprises both the immediate default risk and the danger of a decline in the customer's creditworthiness. The Group's exposure to credit risk corresponds to trade receivables, other receivables and cash and cash equivalents.

Trade receivables, comparing to all other financial assets, mainly carries the risk of default which historically turned out to be nearly zero. To maintain the low credit default risk based on historical evidence, the Group assesses the default risk for new customers with a significant order volume. For all customers a regular monitoring process has been established to track and manage open balances. Because of their short-term nature the carrying amounts of trade and other payables are considered the same as their fair values.

Credit risks arising from cash and cash-equivalents are monitored directly on the Group Level. Counterparties for cash and cash-equivalent transactions are limited to financial institutions with strong credit ratings. The creditworthiness of these financial institutions is monitored on a regular basis. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Default risks from other financial instruments are also immaterial. Therefore, no loss allowance was recognized for other financial instruments.

<u>in EUR thousand</u>	<u>Not overdue</u>	<u>Less than 30 days overdue</u>	<u>Overdue Between 30 and 90 days overdue</u>	<u>More than 90 days overdue</u>
01 January 2017				
Trade receivables	5,393	535	129	743
31 December 2017				
Trade receivables	4,761	238	22	—
31 December 2018				
Trade receivables	6,523	519	94	6
31 December 2019				
Trade receivables	8,693	459	21	15

The amount more than 90 days overdue as of 01 January 2017 is mainly related to one FUTRUE Group company.

9. Related party disclosures

Transactions and balances with related parties

Related parties in accordance with IAS 24, Related Party Disclosures, are those legal entities, other than entities that are already included in the combined financial statements, and natural persons which can be materially influenced by or are able to influence the Group.

The following entities are related to the Group in accordance with IAS 24.9:

- a) FUTRUE as the parent;
- b) MVH Beteiligungs- und Beratungs-GmbH (controlled by Madlena Hohlefelder, who is a related person of the Group);
- c) all subsidiaries that are controlled by FUTRUE.

Dr. Clemens Fischer controls 100% of FUTRUE and as such, he is the ultimate controlling party for the companies of the Group.

The significant transactions between the Group and FUTRUE mostly consist of management fees including among others rental, personnel recruiting expenses, as well as expenses for IT equipment and maintenance. The transactions between the Group and the subsidiaries controlled by FUTRUE mainly consists of media services and to a minor extent selling and research related expenses invoiced to the Group in the exchange of services provided.

Transactions and balances with related parties for the presented fiscal years are as follow:

in EUR thousand	2019	2018	2017
Sales of goods and services to	667	668	630
FUTRUE GmbH	92	1	335
FUTRUE Group companies	575	667	267
other related parties	—	1	28
Purchases of goods and services from	(29,655)	(28,793)	(24,366)
FUTRUE GmbH	(744)	(635)	(711)
FUTRUE Group companies	(28,764)	(27,991)	(23,500)
other related parties	(147)	(167)	(154)

	31 December 2019	31 December 2018	31 December 2017	01 January 2017
Amounts owed by	1,777	799	1,201	911
FUTRUE GmbH.....	220	181	19	5
FUTRUE Group companies	1,532	591	962	873
Key management personnel	—	1	192	29
other related parties	25	26	28	4
Amounts owed to	1,842	1,245	2,544	659
FUTRUE GmbH.....	1,799	930	787	431
FUTRUE Group companies	41	223	1,640	26
other related parties	2	92	117	202

Key management personnel compensation

The following individuals/persons are related to the reporting entity in accordance with IAS 24.9(a)(iii). That is, the individuals/persons are members of the key management personnel (key managing directors) of the reporting entity or of a parent of the reporting entity: Dr. Clemens Fischer, Michael Rudolf, Natalie Weigand and Madlena Hohlefelder.

Compensation and short-term employee benefits for key management personnel paid by PharmaSGP amounted to EUR 332 thousand for fiscal year ended 31 December 2019 (2018: EUR 215 thousand, 2017: EUR 250 thousand).

In addition, key management received compensation and short-term employee benefits from FUTRUE in the amount of EUR 96 thousand for fiscal year ended 31 December 2019 (2018: EUR 274 thousand, 2017: EUR 233 thousand) which was paid for services provided by the key management for the entire FUTRUE Group, including PharmaSGP.

10. Events after the reporting period

After the reporting date of 31 December 2019, the COVID-19 pandemic broke out and led to a decline in general economic performance in the first quarter 2020 in countries that are relevant for the sales of the Group. Even so, the Group's sales and revenue level of the first quarter 2020 was not negatively influenced due to the pandemic conditions.

Until 28 April 2020, the pandemic had no significant negative effects on the supply chain, distribution channels, or on the availability of the Group's products in pharmacies in its sales markets.

Gräfelfing, 28 April 2020

M. Rudolf

N. Weigand

This is a translation of the text of the original German-language report.

INDEPENDENT AUDITOR’S REPORT

To PharmaSGP GmbH

Opinion

We have audited the combined financial statements of the PharmaSGP business (entirety of entities included in the combined financial statements, together “PharmaSGP business”), which comprise the combined statements of profit or loss and other comprehensive income, combined statements of financial position, combined statements of changes in equity, combined statements of cash flow, and the notes to the combined financial statements, including a summary of significant accounting principles, for the fiscal years from 1 January 2019 to 31 December 2019, 1 January 2018 to 31 December 2018 and 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit, the accompanying combined financial statements comply, in all material respects, with International Financial Reporting Standards (IFRSs) as adopted by the EU and, in compliance with these requirements, give a true and fair view of the assets and liabilities and financial position of the PharmaSGP business as of 31 December 2019, 31 December 2018 and 31 December 2017 and their financial performance for the fiscal years from 1 January 2019 to 31 December 2019, 1 January 2018 to 31 December 2018 and 1 January 2017 to 31 December 2017.

Pursuant to Sec. 322 (3) Sentence 1 HGB (“Handelsgesetzbuch”: German Commercial Code), we declare that our audit has not led to any reservations relating to the legal compliance of the combined financial statements.

Basis for the opinion

We conducted our audit of the combined financial statements in accordance with Sec. 317 HGB 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 combined financial statements” section of our auditor’s report. We are independent of the entirety of entities included in the combined financial statements in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the combined financial statements.

Responsibilities of the executive directors for the combined financial statements

The executive directors of PharmaSGP GmbH are responsible for the preparation of the combined financial statements that comply, in all material respects, with IFRSs as adopted by the EU and that the combined financial statements, in compliance with these requirements, give a true and fair view of the assets and liabilities, financial position and financial performance of the PharmaSGP business. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, the executive directors are responsible for assessing the PharmaSGP business’ 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 PharmaSGP business or to cease operations, or there is no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the combined financial statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion on the combined financial statements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB as well as 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

We exercise professional judgment and maintain professional skepticism throughout

the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the combined financial statements 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 PharmaSGP business' 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 combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PharmaSGP business to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements present the underlying transactions and events in a manner that the combined financial statements give a true and fair view of the assets and liabilities, financial position and financial performance of the PharmaSGP business in compliance with IFRSs as adopted by the EU.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within PharmaSGP business to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Munich, 28 April 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Christ
Wirtschaftsprüfer
(German Public Auditor)

Esche
Wirtschaftsprüfer
(German Public Auditor)