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menu

(0)  

[Home page](#) / [quick search](#) / [search result](#)

Search in all areas

Search options ▾

[← previous entry](#)

[Back to the search result](#)



[Next entry >](#)

Rottendorf Pharma GmbH, Ennigerloh

Accounting / Financial Reports

company

information

designation

Rottendorf Pharma GmbH

Ennigerloh

Annual financial statements for the financial year from January 1st, 2019 to December 31st, 2019

Management Report 2019

I. Company Fundamentals

1. Business Model

Rottendorf Pharma GmbH, based in Ennigerloh, is a subsidiary of the Rottendorf Group. The ultimate parent company of the Rottendorf Group is Rottendorf GmbH based in Berlin and is the sole shareholder of Rottendorf Pharma GmbH. Rottendorf Pharma GmbH, in turn, is the sole shareholder of the subsidiaries Rottendorf Service GmbH, Ennigerloh, and Rottendorf Pharma Inc., Bozeman (USA). Rottendorf Operations GmbH was merged into Rottendorf Pharma GmbH on January 1, 2019. Within the Rottendorf Group, only Rottendorf Pharma GmbH acts as a sales and production company on the market. Rottendorf Pharma Inc. acts as a sales company and represents the Rottendorf Group on the US market. Rottendorf Service GmbH did not have any business activities of its own in the year under review. The core business of the Rottendorf Group and thus also of Rottendorf Pharma GmbH includes the development, manufacture and packaging of solid dosage forms in the areas of original drugs, generics and non-prescription products (over-the-counter products). In order to avoid competitive situations with its customers, Rottendorf, as an exclusive contract manufacturer (Contract Development and Manufacturing Organization or CDMO), has no products of its own on the market.

The market relevant for Rottendorf is primarily the pharmaceutical and food supplement market. For the group of companies, it is about the share that the pharmaceutical companies award to contract manufacturers such as Rottendorf. Influencing factors for the award of contract manufacturers are in particular the individual capacity utilization of the pharmaceutical companies, the expertise in mapping pharmaceutical development knowledge in the production process and the strategic orientation with regard to mapping the process steps

through in-house capacities. Reasons for the strategic outsourcing of production by pharmaceutical companies are, for example, the focus on research, sales and marketing,

There are two main areas to be distinguished in the contract manufacturing market: On the one hand, cost-effective machine capacities with little personal responsibility are in demand from the contract manufacturer. On the other hand, full-service providers are sought that have a high level of pharmaceutical expertise, can meet constantly increasing regulatory requirements and can present efficient and robust manufacturing and supply chain processes. Rottendorf is active in this sub-market of demanding full-service providers. The full service offered by Rottendorf is increasingly in demand from original drug suppliers who strategically focus on research, sales and marketing. In addition, the generics market is still of interest to Rottendorf. Although this segment is subject to greater cost pressure overall, Rottendorf is able to submit competitive offers due to its efficient and reliable production processes and its high level of pharmaceutical expertise. The business with over-the-counter medicines (OTC preparations) as the third market segment for medicines is also of great importance. An extensive range of services, especially in the areas of development and transfer, completes the offer.

In addition to these services, Rottendorf offers packaging services. Both the in-house manufactured products and products finished by customers are packed.

In the recent past, the development business (development) has been firmly established on the market. In this line of business, Rottendorf develops concepts and dossiers for the manufacture of drugs in solid dosage forms for active ingredients defined by customers on behalf of customers. Rottendorf is targeting customers for whom no decision about commercial business can be made in the commissioning phase. This segment includes start-up companies, customers who need services in clinical phase development and commercial trial manufacturing, and customers who are looking for a highly qualified CDMO for their developments.

2. Goals and Strategies

Rottendorf positions itself in the market with its pharmaceutical and technological competence and focuses exclusively on the area of solid dosage forms. The competitive advantage of the Rottendorf Group in this area lies in particular in the full service, which also frees the customer to request only modular services from Rottendorf. Strategic sales focus equally on big pharmaceutical companies, start-ups and mid-size customers. In order to establish a long-term customer relationship and to further establish Rottendorf as a strong brand in the market, the service concept TPO (Total Process Ownership) and the strategic competence concept TTM (Total Technological Mastering) are used.

The company's goal is to further expand its strong market position as a CDMO full-service provider in the area of solid dosage forms in the strategic target markets of the European Union and North America. Strategic partnerships with competent CDMOs are specifically established and expanded by the pharmaceutical companies. The aim here is to reduce investments and risks in order to decomplex your own business model.

3. Research and Development

Research and development activities at Rottendorf are mainly carried out on behalf of customers. The focus is on the development and optimization of solid dosage forms for active ingredients defined by customers. The customer is offered different solutions for their inquiries. However, no research and development activities are carried out for the Rottendorf Group.

4. Financial and non-financial performance indicators

Business activities are generally controlled according to sales and earnings-oriented performance indicators. The sales and earnings-oriented performance indicators include sales, absolute EBITDA (earnings before interest, taxes, depreciation and amortization) and the EBITDA margin (EBITDA in relation to sales) and represent the financial performance indicators in the narrower sense.

The key figures are monitored and evaluated by the management and the extended management team in regular weekly and monthly meetings in order to ensure appropriate corporate management at all times.

II. Presentation of the course of business including the business result

1. Development of industry and overall economy

Economic development weakened in the euro area in 2019 to moderate growth of 1.2% after 1.9% according to the IMF. In 2020, an economic increase of 1.4% was planned for the euro countries, despite global trade disputes and the associated weak development of the automotive, logistics and energy sectors.

With the outbreak of the SARS-CoV 2 virus and the resulting global pandemic and its effects, these macroeconomic statements are no longer tenable and a reliable economic forecast for the global economy or regional markets hardly seems possible. The forecasts of the IMF, which are subject to a high degree of uncertainty due to the unforeseeable effects of the number of infections, envisage a decline of 4.9% for the global economy and a decline in GDP of 7.8% for Germany. As the pandemic continues to be controlled, the global economy (+5.4%) and Germany (+5.4%) are expected to recover in 2021. Since the pharmaceutical market is usually not dependent on economic developments or reacted counter-cyclically, the effects are not relevant for the Rottendorf Group. Uncertainty about the reliability of global supply chains is currently driving the outsourcing of pharmaceutical production and development to western regions.

The CMO market increased by 9.4%, in line with the long-term growth trend from US\$92.42 billion (2018) to US\$188.07 billion (2026) (source: fortune business insights). The pharmaceutical companies' trend towards outsourcing production and abandonment as a strategic core competence is still intact.

Another influencing factor on the development of the pharmaceutical market is the demographic development with the increasing aging of society, the growing awareness of health and the constant development of new drugs and active ingredients. There are still increased expenditures in the relevant markets such as the European Union, Japan and North America, representing a total of 75% of the total market of over 1,000 billion US \$ (Federal Association of the Pharmaceutical Industry), with increasing tendencies. Sales in the German pharmaceutical market grew by 7% to €46.4 billion in 2019.

The development on the pharmaceutical market and the leading markets in North America and the European Union, which are of central importance for the Rottendorf Group, had an overall positive effect on the business development of the Rottendorf Group.

2. Development of sales and orders

The year under review was characterized by significant growth in all business areas. Rottendorf Pharma GmbH was able to expand its business activities overall in the year under review and increased sales by 24.2% to €128.5 million (previous year: €103.5 million). The production and packaging business in particular contributed to the growth in sales, each with double-digit growth rates. In particular, there was a continuous increase in incoming orders throughout the year for the packaging and bulk business. Sales in the packaging business increased from €18.4 million in the previous year to €27.8 million and in the bulk area from €47.3 million to €57.3 million in the 2019 financial year.

3. Business Outcome

The EBITDA rose from €8.8 million in the previous year to €18.8 million in the 2019 financial year. The increase is mainly due to the increased sales. In addition, the increase in earnings in the 2019 financial year resulted from a shift in sales to more complex and higher-margin areas. The EBITDA margin increased from 8.5% in the previous year to 14.6% in the 2019 financial year. Earnings after taxes increased from €3.8 million in the previous year to €10.4 million in the 2019 financial year.

4. Production

The quantities of tablets, film-coated tablets and coated tablets produced amounted to 4,375 batches in 2019 (previous year: 4,163). The automatically packaged quantities increased in the year under review to 115.2 million filling units (previous year: 93.5 million filling units). The increase is mainly based on the commissioning of new packaging lines and the resulting acceptance of additional packaging orders.

5. Procurement

The price development of raw materials went largely according to plan in the year under review. The raw materials ratio was 24.4% and was thus above the previous year's level (previous year 22.7%). The increase is mainly due to the increased share of sales in the production areas, the moderate increase in prices in the supply area and the switch from the provision of raw materials by the customer to direct sourcing.

6. Investments

In the year under review, €9.8 million (previous year: €5.6 million) was invested in fixed assets. The investments were financed exclusively from the current cash flow. The investments largely related to the expansion and modernization of the packaging lines, the expansion of the production environment to meet the regulatory requirements of new target markets and measures with regard to the digitalization of the production process. Furthermore, investments have already been made in upcoming expansions of the production facilities for the following years.

7. Financing measures or projects

The current assets were financed through own funds and short-term lines, while the investments were also financed through own funds. The existing medium-term loans were repaid as planned in the year under review. The conditions of the line, loan and leasing agreements largely corresponded to the currently favorable interest rate level.

Due to the positive earnings situation and the once again improved inflow of liquidity, only outside financing for new buildings in the production area is planned in the following financial year according to the progress of the planning of the new buildings.

8. Non-financial performance indicators

The Rottendorf Group operates an energy management system in accordance with DIN ISO 50001 and is certified accordingly. The effectiveness of the system was confirmed in the reporting year as part of a surveillance audit. Various energy management measures and activities were carried out in 2019. By taking on an external service provider in 2019, an action plan was defined, which will be consistently coordinated and implemented in the following years in conjunction with all social partners within the Rottendorf Group. The plan is to reduce energy consumption by 20% in the medium term. Within this framework, the employees are individually trained.

9. Personnel and social area

In the year under review, the Rottendorf Academy was able to further increase the specialist and action skills of Rottendorf employees in all areas through practical and in-depth training. In 2019, this also included modules dealing with the development of social skills among employees, which can be used very profitably in employee management and development, among other things. Furthermore, the employees were actively trained in their professional qualifications by external service providers.

The aim of the Rottendorf Academy is the consistent and continuous increase in the competence of the employees. The number of staff in the training area has been expanded.

10. Other significant events and developments during the financial year

Based on existing contracts, Rottendorf Pharma GmbH will expand the production possibilities in the long term. For this purpose, planning services for the expansion of the packaging site have already been taken up in conjunction with the real estate-owning parent company. The main customs office in Bielefeld and the General Customs Directorate followed the arguments of the Rottendorf Group and checked the proper taxation of spirits from previous years and found them to be correct. The procedure has been discontinued and no additional payments have been made.

11. Comparison of the previous year's forecast with the actual business development

Operating EBITDA (earnings before interest, taxes, depreciation and amortization) and sales have developed as follows compared to the previous year and the forecast for the past financial year:

At €128.5 million, sales were above the sales forecast of a 10-20% increase in sales compared to the previous year's sales of €103.5 million. Sales increased significantly in the bulk area, among other things, thanks to additional orders from existing customers and the increased packaging volumes.

The EBITDA significantly exceeds the previous year's forecast at €18.8 million. The EBITDA margin also increased from 8.5% to 14.6% compared to the previous year and planning. The reasons for the positive deviations in the EBITDA and the EBITDA margin are the strong increase in profitable sales. Despite the increased production volumes, personnel costs remained stable. In the packaging unit in particular, investments in new packaging lines brought sustained increases in margins.

12. Overall Statement on Business Development

The course of business in the year under review was very good. Sales increased sustainably. Sales and EBITDA are well above expectations. The order intake during the financial year was above that of the previous year and above planning expectations. Overall, the management is very satisfied with the course of business, as it was possible to increase sales and profits above the industry average in a growing market environment.

III. representation of the situation

1. Assets

Property, plant and equipment rose by 54.6% from €11.9 million to €18.4 million in the year under review. The increase mainly results from investments in technical systems and machines as a result of the expansion of the machine park and the preparation of the production environment for upcoming regulatory requirements and the guarantee of customer requirements for the next few years. In the 2019 financial year, investments were offset by depreciation on property, plant and equipment totaling €3.3 million (previous year: €2.6 million).

Current assets also increased and totaled €50.8 million as of December 31, 2019 (previous year: €39.2 million). Inventories rose by 44.0% year-on-year to €24.2 million at the end of the year (previous year: €16.8 million). Trade receivables and receivables from affiliated companies rose from €17.2 million to €20.4 million. The increase results from the positive course of business with increased sales. At the end of 2019, cash and cash equivalents totaled €5.7 million (previous year: €4.8 million). The increase was based on the positive cash flow development.

Other provisions amounted to €11.9 million (previous year: €7.8 million). The increase is mainly due to higher provisions in the personnel area (€3.9 million; previous year: €2.9 million) and higher provisions for outstanding invoices of €4.4 million; previous year 1.8 million). The increase is mainly due to the operational business growth in the 2019 reporting year.

Liabilities to banks fell by €1.2 million to €6.8 million. The decrease results from scheduled repayments. Additional credit lines granted were not used.

Trade payables increased by €4.0 million year-on-year to €8.5 million. The increase results from the planned increase in production output and the increase in raw material inventories.

Rottendorf Pharma GmbH has a healthy equity ratio of 40.7% (previous year: 34.8%). Despite the €18.0 million increase in total assets, the ratio increased by 5.8%. The balance sheet total of Rottendorf Pharma GmbH increased from €53.2 million in the previous year to €71.2 million.

2. Financial condition

The liquidity situation of Rottendorf Pharma GmbH is as follows:

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	12/31/2019	12/31/2018	Change
	€k	€ thousand	T€
liquid funds	5,745	4,823	922
bank debt due at any time	-12	-246	234
= absolute I. Liquidity	5,733	4,577	1.156
Inventories and short-term receivables	45,032	34,348	10,684
Vendor and short-term debt	-33,176	-24,889	-8,287
= absolute II. Liquidity	17,589	17,576	3,553
Medium-term claims	0	0	0
medium-term debt	-3,968	-3,968	0
= absolute III. liquidity	13,621	10,068	3,553

Cash and cash equivalents amount to €5.7 million (previous year: €4.8 million). The increase is mainly due to the positive development of earnings in the year under review and the operative cash flow.

Net financial liabilities fell by €2.2 million to €1.1 million (previous year: €3.3 million). Of the total liabilities of €28.1 million (previous year €24.8 million), €2.0 million (previous year €3.0 million) have a remaining term of more than five years and €4.0 million € (previous year: € 4.0 million) have a remaining term of between one and five years. The remaining liabilities are due within one year.

Credit lines are available to a sufficient extent at several banks and are available at all times. Credit lines of €9 million were available in the year under review, which were only partially used.

3. Results of operations

Rottendorf Pharma GmbH was able to increase its total output (sales and changes in inventories) in 2019 from €104.0 million to €131.8 million.

Sales increased by €25.0 million. The increase is mainly due to increased bulk sales and packaging volumes.

The analysis of sales by individual segments gives the following picture in a year-on-year comparison:

scroll ↔

	2019	2018
	€k	€k
bulk goods		
inland	29,619	19,905
EU countries	8,723	9,779
rest of the world	18,962	17,577
	57,304	47,261
Packaging		
inland	11,301	6,407
EU countries	1,575	1,450
rest of the world	14,892	10,575
	27,768	18,432
analyses		
inland	4,383	3,013

	2019	2018
	€k	€k
EU countries	1,787	1,781
rest of the world	5.403	6.145
	11,573	10,939
Development and Miscellaneous		
inland	7,587	8,778
EU countries	2,883	2.014
rest of the world	21,677	16,048
	32.147	28,840
sales deductions	-266	52
revenues	128,526	103,524

The cost of materials increased by €8.4 million to €32.1 million (previous year: €23.7 million). The increase is mainly due to the increased total output and the increase in inventories.

Personnel expenses at Rottendorf Pharma GmbH increased by €29.8 million to €56.5 million compared to €26.7 million in the previous year. The increase is mainly due to the increase in personnel, the wage increase and the merger of Rottendorf Operations GmbH into Rottendorf Pharma GmbH. The employment relationships were transferred to Rottendorf Pharma GmbH. The number of people employed during the financial year rose from an annual average of 440 in the previous year to an annual average of 940 employees. The increase resulted from the merger of the 100% subsidiary Rottendorf Operations GmbH and the increased need for personnel as a result of the increased volume of work.

Both other operating income fell by €0.3 million in the year under review, to €0.7 million (previous year: €1.0 million) and other operating expenses by €21.1 million to €25.0 million (previous year: €46.1 million). The decrease in other operating expenses is mainly due to lower expenses for temporary workers due to the merger of Rottendorf Operations GmbH with Rottendorf Pharma GmbH.

Earnings after taxes and the annual surplus rose to €10.4 million (previous year: €3.8 million). The increase in earnings is mainly due to the increase in profitable sales and the increased focus on the high-margin development business.

4. Overall statement on the situation

The course of the financial year was very satisfactory in the reporting year and the economic situation of the group is stable. Sales and EBITDA exceeded expectations. Incoming orders during the financial year were both above those of the previous year and above the sales budget. Full utilization of the production facilities is assumed for the 2020 financial year. The market shares could be increased disproportionately in a growing business environment. The operational growth could be increased by further successes through the expansion of the existing business with long-standing customers and the acquisition of new customers.

IV. Expected development with references to significant opportunities and risks of future development as well as a forecast report

1. Expected development (forecast report)

For the years 2020 to 2025, the CDMO industry is assuming disproportionate growth rates compared to the pharmaceutical market as a whole. The outsourcing trend within the pharmaceutical industry towards highly qualified CDMOs is still intact and will continue to intensify to Western European countries due to the temporarily interrupted supply chains due to the corona pandemic that broke out in Southeast Asia. The political discussion about the lack of availability of medicines in Germany should also increase the increasing demand. The industry growth is in the entire CDMO market and in the specialized solids area, which is one of the core segments for the Rottendorf Group. For the 2020 financial year, Rottendorf Pharma GmbH expects strong sales growth above the expected industry average. In particular, the investments made and expansions in the packaging area will enable a significant increase in sales over the course of the financial year. For the 2020 financial year, Rottendorf Pharma GmbH assumes that the production facilities will be fully utilized.

Furthermore, extensive maintenance work and capacity expansions are planned for the 2020 financial year in order to be able to process the increasing volumes from the long-term supply contracts for the coming financial years with sufficient production capacities. Due to the corona pandemic, which is also affecting Western Europe, strict hygiene concepts and comprehensive access restrictions have been installed at Rottendorf Pharma GmbH in order to avoid production restrictions due to infections. Due to the restricted access of various service providers, non-critical investment projects will be postponed to the next few years.

The plans for the turnover of the Rottendorf Group and Rottendorf Pharma GmbH in the 2020 financial year envisage an increase of 15% to 20% compared to the reporting year. In terms of earnings, EBITDA is expected to be well above the previous year's level. The additional production capacities are very well received by existing and new customers and lead to sustainable increases in earnings. In particular, the expansion of business relationships with long-standing customers reflects the mutually resilient business relationships with long-term framework agreements. The EBITDA margin should increase accordingly.

2. Opportunities and risks of future development

Opportunity and risk management

Opportunity and risk management is an integral part of corporate management. The opportunity and risk policy of the Rottendorf Group consists of making optimal use of existing opportunities and only taking on risks that business activities entail if the risks are offset by corresponding earnings potential.

Opportunities and risks are continuously evaluated and analyzed as part of the planning and budgeting process. In addition to internal influencing factors, external industry analyzes are also taken into account in the process, insofar as this is necessary. Opportunities and risks are qualitatively surveyed and controlled within the Rottendorf Group and not quantified. The system is continuously being further developed. Even if global hazardous situations occur, such as the SARS-CoV2 pandemic, the Rottendorf Group can decisively counter these risks through practiced crisis management and prepared concepts.

opportunities

Opportunities from the industry environment

The international trend among large pharmaceutical companies and innovative start-ups to outsource both the development and commercial production of patent-protected products and sophisticated generics to highly competent CDMOs is progressing with great intensity. The Rottendorf Group has been following this trend for several years as a full-service CDMO. The customers' appreciation of Rottendorf as a fully integrated service provider that offers the process chain from procurement, development, production, packaging, quality assurance, documentation and logistics from a single source is reflected in the long-term cooperation with long-standing customers. The Rottendorf Group, with its solution and customer-oriented sales approach, sees this as a great opportunity to be perceived as a highly qualified service provider in the entire pharmaceutical market in the future and to generate increasing sales and earnings from this. The emerging discussion about relocating drug production from third countries back to Germany to ensure drug availability includes additional sales potential.

Performance Opportunities

The development of the separation between more sophisticated products that require greater pharmaceutical and technological expertise (e.g. original products, complex generics) and rather simple products, which has been emerging for several years, is progressing. While the competitive and price pressure continues to increase for simple products, sophisticated products continue to offer an economically interesting environment. Rottendorf sees this as an opportunity and takes this development as an opportunity to intensify cooperation with customers who place high demands on a contract manufacturer.

In order to be attractive for the target group of customers, Rottendorf continues to expand its know-how with regard to new production technologies. In addition, Rottendorf has geared its organization as a full-service provider to assuming full process responsibility for the technical processes and the supply chain processes. The resulting added value for the customer is increasingly being demanded by customers and remunerated separately.

This orientation clearly sets Rottendorf apart from pure contract manufacturers who only offer machine capacities in standard technologies. The main distinguishing features and opportunities for Rottendorf are outstanding competence in development, upscaling and transfer, a high level of pharmaceutical expertise and high efficiency in technical processes and supply chain processes. Rottendorf achieves the continuous increase in efficiency through its operational excellence program, which is well integrated into the company.

Location-related opportunities

Rottendorf also uses the focus on sophisticated products and the positioning as a full-service CDMO to counter rising costs in Germany (eg personnel and energy costs). The distinctive quality system of the Rottendorf Group enables a very stable customer relationship and convinces new customers by placing orders. With the help of its very well-trained employees at the headquarters in Ennigerloh, these processes can be guaranteed to be methodical and work-efficient.

Rottendorf is also intensifying its activities in the US market, which is very important for the pharmaceutical sector, and is thus achieving - in addition to additional business opportunities - a further diversification of its own markets. In the USA, Rottendorf also offers direct on-site customer support via Rottendorf Pharma Inc. This results in opportunities to develop additional sales opportunities and new customer business.

risks

Industry Risks

The pharmaceutical industry is subject to strong and constantly increasing regulation. Rottendorf has to meet numerous requirements from customers and the approval authorities. Failure to do so can result in higher costs and loss of customer relationships. Rottendorf counters this risk with a strong focus on the qualifications of its employees in the areas mentioned and an ongoing analysis of the changing regulations and the resulting requirements. In addition, compliance with regulations is ensured by an integrated quality assurance system. The industry risks are currently classified as not significant.

procurement risks

Long-term cooperation agreements exist with suppliers for raw materials such as packaging materials. The main procurement risks are the termination of long-term supply contracts without an adequate replacement, a restriction in the availability of raw materials and significant price increases that cannot be passed on to sales in the short term or only partially. Rottendorf counters these risks with a wide selection of suppliers, long-term supplier relationships and a high range in stocks that are not subject to any risk of expiration. In recent years, Rottendorf Pharma GmbH has relied on a high level of warehousing to avoid possible disruptions, e.g. Stop transports within the supply chain due to bans caused by pandemic infectious diseases. This concept guarantees high raw material availability of up to 12 months.

In the area of active ingredients, a large part is provided directly by the customer and remains the customer's property throughout the production process. This means that no procurement risks can arise in Rottendorf from this. Overall, there are currently no significant procurement risks to be identified.

personnel risks

The Rottendorf Group relies on sufficient staff and employees with special knowledge. If vacancies cannot be filled with sufficiently qualified employees or cannot be filled within a reasonable period of time, Rottendorf faces the risk of losses in sales and earnings. In addition, delivery obligations sometimes cannot be met due to staff shortages. Employees with pharmaceutical-technical training are difficult to replace from the region of the company headquarters in Ennigerloh. In order to recruit enough employees in the region, the management focuses on the perception and positioning of the Rottendorf Group as an attractive employer through an internal training concept. Due to the regionally occurring SARS CoV2 pandemic, infectious symptoms of the disease may require affected employees to be quarantined. The structured hygiene concept at the Rottendorf Group enables the production employees to be physically separated from each other. Mobile working is made possible for administrative employees.

There are therefore currently no significant personnel risks to be identified.

sales risks

In the case of simpler products, for example, there is sometimes considerable price pressure on the German market as a result of the tenders advertised by health insurance companies worldwide. Sales prices can come under pressure as a result of cost pressure from the health insurance companies, which they pass on to Rottendorf's customers. If lower sales prices cannot or only partially be compensated for by more favorable purchasing conditions on the procurement market, Rottendorf faces the risk of falling margins and, as a result, a drop in earnings.

Rottendorf counters the sales risks through a strong diversification of its customer structure and the orientation of its business model towards several business areas in order to be able to switch to other customers or higher-margin products or services if necessary.

By focusing on the three characteristics of pharmaceutical competence, manufacturing technology and operational excellence, Rottendorf Pharma is increasing its attractiveness in the market for long-term, sustainable partnerships. Significant sales risks are currently not discernible. Due to the decoupling of economic fluctuations or external special influences, fluctuating sales developments are not discernible.

Risks from the use of financial instruments

In the reporting year, notable sales were made on the US market via the subsidiary Rottendorf Pharma Inc., Bozeman. Risks can arise for Rottendorf from the development of the dollar exchange rate against the euro. The development of exchange rates is closely monitored and analyzed by the company. The use of currency hedging instruments was not deemed necessary in the past and, as in the previous year, was not used in the year under review. A negative development of the dollar against the euro could be reflected in foreign exchange losses. In order to reduce the exchange rate risk, foreign currency risks were dealt with by converting the largest invoice amounts from US dollars to euro amounts in close coordination with US customers. The remaining US dollar amounts are actively used as part of natural hedging towards procurement.

Significant risks from the use of financial instruments are currently not discernible.

Overall picture of the risk situation

Management assumes that, as in the previous year, the overall risks are limited and manageable. There are currently no recognizable risks that could jeopardize the continued existence of the company. Overall, the opportunity and risk situation has not changed significantly compared to the previous year. The corona pandemic seems manageable thanks to the extensive expertise of the Rottendorf employees.

V. Other information

Events of particular importance after the end of the financial year (supplementary report)

The planning for the construction of a new packaging hall has been successfully completed and the start of the construction work by Rottendorf GmbH is expected for 2020.

At the end of the financial year, Rottendorf GmbH acquired a property near the existing packaging site, with notarization in 2020, in order to provide sufficient space for the upcoming infrastructural projects. Rottendorf GmbH is in promising negotiations for the acquisition of additional properties and expects completion in 2020. These properties will be used for the long-term expansion of business operations.

At the end of the 2019 financial year, the pandemic infectious disease SARS-CoV 2 broke out in Southeast Asia and was spread to Europe and North America. The pandemic had no negative impact on the company's business development.

There are no other events of particular importance after the end of the financial year.

Ennigerloh, September 3, 2020

Rottendorf Pharma GmbH
signed Dr. Stephen Fleck
signed Dr. Silke Huster

Balance sheet as of December 31, 2019

assets

	12/31/2019	12/31/2018
	€	€
A. Fixed assets		
I. Intangible assets		
Purchased licenses to industrial property rights	914,065.80	950,349.90
II. Tangible assets		
1. Buildings on third-party land	595,801.36	637,605.52
2. technical installations and machines	6,654,448.30	4,537,401.30
3. Other facilities, fixtures and fittings	8,255,225.00	5,731,543.00
4. Payments on account and assets under construction	2,905,385.65	1,035,802.02
	18,410,860.31	11,942,351.84
III. financial assets		
Shares in affiliated companies	137,157.92	218,611.17
	19,462,084.03	13,111,312.91
B. Current Assets		
I. Inventories		
1. Raw, auxiliary and operating materials	13,837,894.65	9,699,195.06
2. Work in progress	1,921,720.74	1,880,428.04
3. Finished Goods and Merchandise	8,457,168.96	5,221,076.60
	24,216,784.35	16,800,699.70
II. Receivables and other assets		
1. Trade accounts receivable	13,346,764.14	14,985,188.99
2. Receivables from affiliated companies	7,090,796.77	2,194,109.91
3. other assets	377,452.94	367,826.45

	12/31/2019	12/31/2018
	€	€
(of which with a remaining term of more than one year: €150.00; previous year: €150.00)		
	20,815,013.85	17,547,125.35
III. Cash on hand, bank balances and cheques	5,744,788.80	4,823,294.67
	50,776,587.00	39,171,119.72
C. Prepaid expenses	782,368.63	735,950.34
D. Deferred tax assets	174,683.72	189,866.04
	71,195,723.38	53,208,249.01
liabilities		
	12/31/2019	12/31/2018
	€	€
A. Equity		
I. Drawn capital	1,840,700.00	1,840,700.00
II. Capital Reserve	3,792,331.86	3,792,331.86
III. retained earnings	729,243.77	729,243.77
IV. Balance sheet profit	22,589,397.44	12,171,613.31
(of which profit carried forward: €12,171,613.31; previous year: €8,377,307.54)		
	28,951,673.07	18,533,888.94
B. Provisions		
1. Provisions for taxes	4,112,340.11	0.00
2. Other provisions	11,896,301.98	7,803,789.92
	16,008,642.09	7,803,789.92
C. Liabilities		
1. Liabilities to banks	6,838,578.00	8,075,935.55
(of which with a remaining term of up to one year: €906,276.00; previous year: €1,151,637.55)		
2. Advance payments received on orders	5,272,485.58	5,214,134.47
(of which with a remaining term of up to one year: €5,272,485.58; previous year: €5,214,134.47)		
3. Trade Accounts Payable	8,483,159.46	4,445,399.39
(of which with a remaining term of up to one year: €8,483,159.46; previous year: €4,445,399.39)		
4. Liabilities to affiliated companies	1,126,974.44	4,931,440.99
(of which with a remaining term of up to one year: €1,126,974.44; previous year: €4,931,440.39)		
5. Other Liabilities	2,240,998.81	2,129,043.85
(of which with a remaining term of up to one year: €2,240,998.82; previous year: €2,129,043.85)		
(of which from taxes: 1,884,487.36; previous year: € 1,878,163.54)		
(thereof in the context of social security: € 44,677.00 previous year: € 33,844.60)		
	23,962,196.29	24,795,954.25
D. Accruals and Accruals	2,273,211.93	2,074,615.90
	71,195,723.38	53,208,249.01

Profit and Loss Account for the period from January 1st to December 31st 2019

	2019	2018
	€	€
1. Revenue	128,525,953.89	103,523,709.77
2. Increase or decrease in inventories of finished goods and work in progress	3,277,385.06	462,290.34
3. Other operating income	667,435.95	949,122.59
(thereof income from currency translation: €3,943.51; previous year: €3,709.61)	132,470,774.90	104,935,122.70
4. Cost of Materials		
a) Expenses for raw materials, auxiliary materials and supplies and for purchased goods	29,047,218.53	20,890,202.25
b) Expenses for purchased services	3,100,579.31	2,764,882.54

	2019	2018
	€	€
	32,147,797.84	23,655,084.79
5. Personnel expenses		
a) Wages and salaries	47,929,435.01	22,678,855.78
b) Social security contributions and expenses for pensions and for assistance	8,601,978.09	3,999,696.15
	56,531,413.10	26,678,551.93
6. Depreciation of intangible assets and property, plant and equipment	3,293,488.03	2,844,752.51
7. Other Operating Expenses	25,029,393.11	46.104.006.44
(of which from currency conversion: €15,660.93; previous year: €4,849.98)		
8. Losses/Gains from Profit and Loss Transfer Agreements	-130.42	335,092.31
9. Other Interest and Similar Income	52,050.43	47,065.10
(of which from affiliated companies: €52,044.43; previous year: €47,065.10)		
10. Interest and Similar Expenses	244,452.51	399,132.24
(of which to affiliated companies: €41,367.37; previous year: €122,636.83)		
(of which from compounding: €16,875.89; previous year: €47,847.12)		
11. Income taxes	4,841,312.60	1,823,802.37
(thereof deferred tax expenses: € 15,182.32; previous year € -59,375.57)		
12. Earnings after taxes	10,434,837.72	3,811,949.83
13. Other Taxes	17,053.59	17,644.06
14. Net Income	10,417,784.13	3,794,305.77
15. Earnings Carry Forward	12,171,613.31	8,377,307.54
16. Retained Earnings	22,589,397.44	12,171,613.31

Notes for the 2019 financial year

1. General information on the annual financial statements

Rottendorf Pharma GmbH, Ennigerloh, is listed at the Münster register court under number HR B 9746 and is a large corporation as of the balance sheet date within the meaning of Section 267 (3) HGB.

The annual financial statements as of December 31, 2019 were prepared in compliance with the accounting regulations of the German Commercial Code (§§ 264 ff. HGB) in the version of the Accounting Directive Implementation Act (BilRUG) and the supplementary regulations of the GmbHG. The income statement was drawn up using the nature of expense method in accordance with Section 275 (2) HGB. The form of presentation, in particular the structure of the annual financial statements, corresponds to that of the previous year. Fiscal year is the calendar year.

2. Information on accounting and valuation methods

The **intangible assets** and the **tangible assets** were valued at acquisition or production cost less scheduled depreciation based on use. Depreciation was made using the straight-line and degressive methods. Additions are always written off on a pro rata basis. Scheduled depreciation is based on economic useful lives. The scheduled useful life of intangible assets is generally five years. The useful lives of the depreciation table for the chemical industry are used as a basis for property, plant and equipment. The useful life of buildings and outdoor facilities is between 15 and 40 years and between 5 and 15 years for other fixed assets.

Internally generated intangible assets are not capitalized.

A collective item was formed for all low-value assets acquired during the financial year with a net acquisition cost of more than €250.00 and up to €1,000.00, which will be depreciated on a straight-line basis over the next five financial years.

Financial **assets** are stated at acquisition cost or, in the case of permanent impairment, at fair value.

Inventories are valued at acquisition or production cost, taking into account the lower of cost or market principle. All recognizable risks in inventory assets resulting from above-average storage times, reduced usability and/or lower replacement costs are taken into account through appropriate value deductions. In all cases, the valuation was loss-free, ie if the probable sales price less the costs incurred up to the point of sale lead to a lower value, corresponding devaluations were made.

The acquisition costs for **raw materials, auxiliary materials and supplies** were determined using a moving average. Valuation deductions were made for reduced quality, uncommon or difficult-to-use material. The lowest value principle has been observed.

Work in **progress and finished goods** were valued at production cost. These include the direct material and production costs as well as appropriate parts of the associated overhead costs and the depreciation of the fixed assets, insofar as this is caused by the production. General administration and sales costs are not included. The valuation corresponds to the principles of Sections 255 (2) and 253 (4) HGB. The work in **progress** is valued retrospectively based on the contribution margins to be achieved and measured according to the progress of the work on the balance sheet date.

Receivables and other assets are reported at their nominal values.

Recognizable individual risks were adequately taken into account through individual value adjustments.

The general risk of default on trade accounts receivable was taken into account by creating a general allowance.

Cash and **cash equivalents** are stated at their nominal value on the balance sheet date.

Payments made before the balance sheet date are recognized as **prepaid** expenses if they represent expenses for a specific period after this date.

Deferred taxes are recognized on the differences between the commercial balance sheet and the tax balance sheet, insofar as these are expected to decrease in subsequent financial years. Exercising the right to choose pursuant to Section 274 (1) sentence 2 of the German Commercial Code, **deferred tax assets** are recognized.

Company-specific tax rates were used to measure deferred taxes. The corporation tax including the solidarity surcharge is deferred at 15.825% for the entire tax group. A tax rate of 14.945% is taken into account for the trade tax due to the current assessment rate in Enningerloh of 427% and the tax index of 3.50%.

The expense and income from the change in the recognized deferred taxes is reported separately in the income statement under the item "Income taxes" as an of which note.

The **subscribed capital** is accounted for at nominal value.

The **provisions** take into account all recognizable risks and uncertain obligations and are formed in the amount of their expected settlement amount, which is required according to prudent business judgment to cover future payment obligations. Future price and cost increases are taken into account if there is sufficient objective evidence that they will occur.

Provisions with a remaining term of more than one year are discounted at the market interest rate for the remaining term published by the Deutsche Bundesbank with matching maturities.

The valuation of the **jubilee provisions** is carried out at fair value on the basis of a partial value method using the 2018 G mortality tables by Prof. Dr. Klaus Heubeck, an interest rate of 1.97% pa (previous year: 2.32% pa) and a salary trend of 2.5% pa (previous year: 2.5% pa). For future expenses from the fulfillment of legal or contractual **storage** obligations for business documents, corresponding provisions were made in the amount of the respective settlement amount, ie taking into account the cost ratios that are likely to apply at the time of fulfillment. The archiving costs were formed on the basis of a remaining retention period of ten years plus a 20% share of a remaining retention period of 11 to 30 years due to contractual obligations. Price and cost increases were also taken into account.

Liabilities have been recognized at their settlement amounts.

Receivables and liabilities in **foreign currencies** with a remaining term of no more than one year are valued at the average spot exchange rate on the balance sheet date. All other foreign currency receivables are valued at the exchange rate on invoicing or the lower average spot exchange rate on the balance sheet date. All other foreign currency liabilities are valued at the exchange rate at the time of invoicing or at the mean spot exchange rate on the balance sheet date, whichever is higher.

3. Notes to the balance sheet

Notes on assets

The breakdown and development of **fixed assets** and **financial assets** can be found in the attached statement of changes in fixed assets, which is part of these notes.

The shares in affiliated companies reported under financial assets break down as follows:

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name and seat	Shareholding%	Subscribed capital / fixed capital	Result of the last financial year	Effective date of the present information
inland				
Rottendorf Service GmbH, Enningerloh	100.0	EUR 25,000	EUR 0.00	12/31/2019
abroad				
Rottendorf Pharma, Inc., Bozeman, USA	100.0	USD 150,000	USD 555,112.26	12/31/2019

Unscheduled depreciation due to a probable permanent reduction in value was not carried out for valuations for shares in affiliated companies in accordance with Section 253 (3) Sentence 5 HGB in the financial year and in the previous year.

Receivables from affiliated companies account for € 7,091 thousand (previous year: €1,624 thousand) in trade receivables from Rottendorf Pharma Inc., USA. The subsidiary Rottendorf Operations GmbH, which had already transferred its business operations to Rottendorf Pharma GmbH in the previous year, was merged with the parent company in the year under review, so that there are no longer any receivables here (previous year: €570 thousand).

The **other assets** essentially include tax refund claims for gas/electricity tax in the amount of €191 thousand (previous year: €191 thousand), accounts payable with debits in the amount of €107 thousand (previous year: €86 thousand) and a security deposit for the customs office in the amount of €68 thousand (previous year: €0 thousand).

Deferred **taxes** developed as follows in the financial year:

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	01/01/2019 € thousand	Addition T€	Disposal € thousand	12/31/2019 €k
Deferred tax assets	190	0	15	175

The reported deferred tax assets of €175,000 mainly result from temporary differences in the area of anniversary provisions and provisions for document archiving.

Explanations of the liabilities

The **retained earnings** of EUR 729 thousand arose as of January 1, 2010 through the posting of deferred tax assets with no effect on income at the time of the first-time application of the BilMoG (January 1, 2010) and essentially results from the tax loss carryforwards existing as of December 31, 2009 .

From the 2019 financial year, provisions for income taxes are no longer reported under other liabilities, but under tax provisions.

The **other provisions** are shown in the following table of provisions:

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	As of 01/01/2019 € thousand	Consumption T€	Resolution T€	Allocation € thousand	Discounting T€	As of 12/31/2019 € thousand
Provisions from the social sector						
holiday entitlements	807	0	0	148	0	955
anniversary payments	786	0	0	76	0	862
overtime	320	0	96	0	0	224
Variable references	462	462	0	662	0	662
Special payment management team	502	502	0	944	0	944
wage costs dismissal	0	0	0	266	0	266
trade association	76	13	64	6	0	5
	2,954	977	160	2,100	0	3,917
Provisions from deliveries / services						
Individual Warranty Obligations	1,579	120	751	784	0	1,492
Miscellaneous	306	183	0	461	0	584
	1,885	303	751	1,244	0	2,076
Other provisions						
Pending invoice	1,785	15	3	2,804	0	4,571
document archiving	659	0	0	107	0	766
Miscellaneous	520	321	0	367	0	566
	2,965	337	3	3,279	0	5,903
total provisions	7,804	1,616	914	6,623	8th	11,896

Of the income from the reversal of the provisions, €54k came from the merger with Rottendorf Operations GmbH.

The nature and scope of the **liabilities** result from the following table of liabilities:

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	Residual term up to one year (previous year) € thousand	Residual term between one and five years (previous year) € thousand	Residual term of more than five years (previous year) €k	Total amount (previous year) € k	of which secured (previous year) €k
1. Liabilities to banks	906	3,968	1,964	6,839	0.00
	(1,152)	(3,968)	(2,956)	(8,076)	(0.00)
2. Advance payments received on orders	5.272	0.00	0.00	5.272	0.00
	(5.214)	(0.00)	(0.00)	(5.214)	(0.00)
3. Trade Accounts Payable	8,483	0.00	0.00	8,483	0.00
	(4,445)	(0.00)	(0.00)	(4,445)	(0.00)
4. Liabilities to affiliated companies	1.127	0.00	0.00	1.127	0.00
	(4,931)	(0.00)	(0.00)	(4,931)	(0.00)
5. other liabilities	2.241	0.00	0.00	2.241	0.00
	(2.129)	(0.00)	(0.00)	(2.129)	(0.00)
In total	18,029	3,968	1,964	23,962	0.00
	(17,872)	(3,968)	(2,956)	(24,796)	(0.00)

The item **liabilities to affiliated companies** includes liabilities to the sole shareholder Rottendorf GmbH in the amount of €1,102 thousand (previous year: €3,910 thousand) and liabilities to the subsidiary Rottendorf Service GmbH in the amount of €24 thousand (previous year: €24 thousand). Due to the merger of Rottendorf Operations GmbH with the parent company, there are no longer any liabilities in this regard (previous year: €997 thousand).

The liabilities to the shareholder Rottendorf GmbH result from deliveries and services as well as the cash pooling on the part of Rottendorf Pharma GmbH. Of the liabilities to Rottendorf Service GmbH, €24 thousand (previous year: €24 thousand) result from deliveries and services as well as from cash pooling. In addition, €1,000 (previous year: €1,000) resulted from the profit and loss transfer agreement.

The **other liabilities** essentially include wage tax liabilities of €910 thousand (previous year: €400 thousand), accounts receivable in the amount of €257 thousand (previous year: €176 thousand) and contributions to the employers' association of €36 thousand (previous year: €19 thousand).

Customer grants that depend on the term are reported under the item **deferred income**, which will be reversed according to the term from 2017.

4. Notes to the Profit and Loss Account

The sales revenues are broken down according to areas of activity and sales areas as follows:

	2019	2018
	€k	€k
bulk goods		
inland	29,619	19,905
EU countries	8,723	9,779
rest of the world	18,962	17,577
	57,304	47,261
Packaging		
inland	11,301	6,407
EU countries	1,575	1,450
rest of the world	14,892	10,575
	27,768	18,432
analyses		
inland	4,383	3,013
EU countries	1,787	1,781
rest of the world	5,403	6,145
	11,573	10,939
Development and Miscellaneous		
inland	7,587	8,778
EU countries	2,883	2,014
rest of the world	21,677	16,048
	32,147	28,840
sales deductions	-266	52
revenues	128,526	103,524

As in the previous year, sales revenues do not include any income relating to other periods.

The **other operating income** essentially include income from the reversal of other provisions in the amount of €267 thousand (previous year: €224 thousand), reimbursements in the personnel area in the amount of €177 thousand (previous year: €107 thousand), income from costs and services passed on to former subsidiaries in the amount of €82 thousand (previous year: €113 thousand), from the reduction of individual value adjustments in the amount of €7 thousand (previous year: €225 thousand), the merger profit resulting from the merger of Rottendorf Operations (€42 thousand), income from subsidies from the Federal Ministry of Research in the amount of €25 thousand (previous year: €72 thousand) and gains from the disposal of fixed assets in the amount of €9 thousand (previous year: €76 thousand).

The **other operating expenses** include operating expenses of €18,785 thousand (previous year: €40,558 thousand), administrative expenses of €3,663 thousand (previous year: €2,775 thousand), selling expenses of €1,632 thousand (previous year: €1,463 thousand) and other expenses of €949 thousand (previous year: €1,308 thousand). T€), which mainly result from expenses for warranty services. The significantly reduced operating expenses compared to the previous year result from the discontinuation of temporary employment by a subsidiary (previous year: €25,276k). The subsidiary made employees available to Rottendorf Pharma GmbH in the period from 2009 to December 2018 to perform specific tasks for Rottendorf Pharma GmbH.

5. Other information

Contingent liabilities pursuant to Section 251 HGB result from joint and several liability in the amount of €677 thousand (previous year: €948 thousand). The contingent liabilities were entered into exclusively in favor of the parent company Rottendorf GmbH, Berlin, for which other third parties are jointly liable. The risk of a claim can be assessed as low because the debtor has a positive going concern prognosis.

The **other financial obligations** break down as follows:

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	In total k€	remaining terms		
		up to one year T€	one to five years T€	more than five years T€
from leases	7,877	1,986	5,891	0
(Previous year)	(7,877)	(1,986)	(5,891)	(0)
From leasing contracts	9.165	1,425	5.211	2,529
(Previous year)	(10,766)	(1,448)	(5424)	(3,895)
total	17,042	3.411	11.102	2,529
(Previous year)	(18,643)	(3,434)	(11,314)	(3,895)

The existing obligations from rental agreements in the amount of €7,854 thousand (previous year: €7,854 thousand) are obligations to the parent company Rottendorf GmbH, Berlin.

The background to the leasing and rental agreements entered into is the off-balance sheet use of assets that would otherwise be classified as fixed assets. In addition, a convergence between income and expenses from the use of the assets is achieved through these transactions. They also serve to diversify financing and thus strengthen entrepreneurial independence. The equity ratio and the level of debt remain essentially unaffected by the leasing financing. The risks from these contracts are that the amounts stated will affect future liquidity, **Significant financial obligations** within the meaning of Section 285 No. 3a HGB, which do not have to be disclosed under Section 251 HGB, result from call-off contracts for the procurement of materials (mainly active ingredients and auxiliary substances) in the amount of €926 thousand (previous year: €1,354 thousand).).

Transactions with related parties

As part of normal business activities, the company maintains business relationships with affiliated companies that are considered to be related. This applies in particular to the purchase or provision of services, the use and transfer of use of assets and financing. Since all transactions are conducted with and between companies that are directly or indirectly wholly owned and included in the consolidated financial statements of Rottendorf GmbH, Berlin, no further information is required in accordance with Section 285 No. 21 HGB.

Amounts blocked for distribution (§ 268 Para. 8 HGB)

As of the balance sheet date, the deferred tax assets of €175 thousand (previous year: €190 thousand) are subject to a distribution block. As of the balance sheet date, the freely available reserves plus a profit carried forward exceed the total amount of the amounts blocked for distribution. Therefore, there is no distribution block in relation to the annual surplus.

shareholders and corporate relationships

The annual financial statements of Rottendorf Pharma GmbH are included in the consolidated financial statements of the parent company Rottendorf GmbH based in Berlin. Rottendorf GmbH, Berlin, prepares the consolidated financial statements for the smallest and for the largest group of companies and thus exempts Rottendorf Pharma GmbH from the obligation to prepare separate consolidated financial statements, § 291 Para. 1 i. In conjunction with Section 291 (2) HGB. The consolidated financial statements are published in the electronic company register.

The **Advisory Board** is composed as follows:

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Dr. Franz-Josef Placke, pharmacist, Haan (Chairman)
Dr. Bernward Garthoff, Manager, Hilden
Miss Dr. Maria-Luisa Binda, consultant, Leverkusen
Mr. Bruno Buss, senior employee at Rottendorf Pharma GmbH, Ennigerloh

The total remuneration of the Advisory Board in the 2019 financial year was €84 thousand (previous year: €174 thousand).

The following were appointed as **managing directors** of the company in the year under review:

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• Dr. Stephan Fleck, physicist, Wermelskirchen
• Miss Dr. Silke Huster, chemist, Oelde

Dr. Fleck was also appointed Managing Director of the affiliated companies Rottendorf GmbH, Rottendorf Service GmbH and Rottendorf Pharma Inc., USA. Miss Dr. Huster was also appointed managing director of the affiliated company Rottendorf Service.

With regard to the information in accordance with Section 285 Sentence 1 No. 9 HGB regarding the managing director, use is made of the protective clause in Section 286 Paragraph 4 HGB and the information is accordingly omitted.

employees on average over the year

The average number of employees (excluding trainees) was as follows in the year under review:

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	2019	2018	2018 *
Industrial workers	537	99	503 *
employee	403	341	375 *
	940	440	878 *

* Figure including Rottendorf Operations GmbH, which was merged with Rottendorf Pharma in the year under review

Proposal for appropriation of earnings

It is proposed to the shareholders' meeting to carry forward the annual surplus of the reporting year to new account.

Events of particular importance after the end of the financial year (supplementary report)

The planning for the construction of a new packaging hall has been successfully completed and the start of the construction work by Rottendorf GmbH is expected for 2020.

At the end of the financial year, Rottendorf GmbH acquired a plot of land near the existing packaging site, with notarization in 2020, in order to provide sufficient space for the upcoming infrastructural projects. Rottendorf GmbH is in promising negotiations for the acquisition of additional properties and expects completion in 2020. These properties will be used for the long-term expansion of business operations.

At the end of the 2019 financial year, the pandemic infectious disease SARS-CoV 2 broke out in Southeast Asia and was spread to Europe and North America. The pandemic had no negative impact on the company's business development.

There are no other events of particular importance after the end of the financial year.

Ennigerloh, September 03, 2020

Rottendorf Pharma GmbH

signed Dr. Stephen Fleck

signed Dr. Silke Huster

Development of fixed assets in 2019

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	Acquisition or production costs		
	01/01/2019	Additions	departures
	€	€	€
A. Fixed assets			
I. Intangible assets			
Purchased licenses to industrial property rights	3,489,997.55	273,856.47	0.00
	3,489,997.55	273,856.47	0.00
II. Tangible assets			
1. Land and buildings	1,488,753.29	61,183.60	0.00
2. technical installations and machines	37,385,062.09	3,316,096.40	381,007.28
3. Other facilities, fixtures and fittings	24,219,892.49	3,288,731.13	813,937.67
4. Payments on account and assets under construction	1,132,706.36	2,835,578.79	0.00
	64,226,414.23	9,501,589.92	1,194,944.95
III. financial assets			
Shares in affiliated companies	218,611.17	0.00	81,453.25
	218,611.17	0.00	81,453.25
	67,935,022.95	9,775,446.39	1,276,398.20

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	Acquisition or production costs	
	Rebooking	12/31/2019
	€	€
A. Fixed assets		
I. Intangible assets		
Purchased licenses to industrial property rights	266.99	3,764,121.01
	266.99	3,764,121.01
II. Tangible assets		

	Acquisition or production costs	
	Rebooking	12/31/2019
	€	€
1. Land and buildings	0.00	1,549,936.89
2. technical installations and machines	513,902.91	40,834,054.12
3. Other facilities, fixtures and fittings	451,825.26	27,146,511.21
4. Payments on account and assets under construction	-965,995.16	3,002,289.99
	-266.99	72,532,792.21
III. financial assets		
Shares in affiliated companies	0.00	137,157.92
	0.00	137,157.92
	0.00	76,434,071.14

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	depreciation		
	01/01/2019	Additions	departures
	€	€	€
A. Fixed assets			
I. Intangible assets			
Purchased licenses to industrial property rights	2,539,647.65	310,405.85	0.00
	2,539,647.65	310,405.85	0.00
II. Tangible assets			
1. Land and buildings	851,147.77	102,987.76	0.00
2. technical installations and machines	32,847,660.79	1,702,079.31	370,134.28
3. Other facilities, fixtures and fittings	18,488,349.49	1178015.11	775,076.68
4. Payments on account and assets under construction	96,904.34	0.00	0.00
	52,284,062.39	2,983,082.18	1,145,210.96
III. financial assets			
Shares in affiliated companies	0.00	0.00	0.00
	0.00	0.00	0.00
	54,823,710.04	3,293,488.03	1,145,210.96

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	depreciation	
	Rebooking	12/31/2019
	€	€
A. Fixed assets		
I. Intangible assets		
Purchased licenses to industrial property rights	1.71	2,850,055.21
	1.71	2,850,055.21
II. Tangible assets		0.00
1. Land and buildings	0.00	954,135.53
2. technical installations and machines	0.00	34,179,605.82
3. Other facilities, fixtures and fittings	-1.71	18,891,286.21
4. Payments on account and assets under construction	0.00	96,904.34
	-1.71	54,121,931.90
III. financial assets		
Shares in affiliated companies	0.00	0.00
	0.00	0.00
	0.00	56,971,987.11

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	book values	
	12/31/2019	12/31/2018
	€	€
A. Fixed assets		
I. Intangible assets		
Purchased licenses to industrial property rights	914,065.80	950,349.90
	914,065.80	950,349.90
II. Tangible assets		
1. Land and buildings	595,801.36	637,605.52
2. technical installations and machines	6,654,448.30	4,537,401.30
3. Other facilities, fixtures and fittings	8,255,225.00	5,731,543.00
4. Payments on account and assets under construction	2,905,385.65	1,035,802.02
	18,410,860.31	11,942,351.84
III. financial assets		
Shares in affiliated companies	137,157.92	218,611.17
	137,157.92	218,611.17
	19,462,084.03	13,111,312.91

INDEPENDENT AUDITOR'S REPORT

To Rottendorf Pharma GmbH, Ennigerloh
audit opinions

We have the annual financial statements of Rottendorf Pharma GmbH, Ennigerloh, - consisting of the balance sheet as of December 31, 2019 and the income statement for the financial year from January 1 to December 31, 2019 and the notes, including the presentation of the accounting and valuation methods - checked. In addition, we have audited the management report of Rottendorf Pharma GmbH for the financial year from January 1 to December 31, 2019.

According to our assessment based on the knowledge gained during the audit

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The attached annual financial statements comply in all material respects with German commercial law regulations and, in compliance with German generally accepted accounting principles, provide a true and fair view of the company's net assets and financial position as of December 31, 2019 and its results of operations for the financial year from January 1 to as of December 31, 2019 and the attached management report as a whole provides an accurate picture of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

In accordance with § 322 Para. 3 Sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the annual financial statements and the management report.

Basis for the test results

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 of the German Commercial Code, taking into account the German generally accepted auditing principles established by the Institute of Public Auditors in Germany (IDW). Our responsibility under those regulations and standards is further described in the "Auditor's responsibility for the audit of the financial statements and management report" section of our auditor's report. We are independent of the company 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.

Responsibility of the legal representatives for the annual financial statements and the management report

The legal representatives are responsible for the preparation of the annual financial statements, which comply with the German commercial law provisions in all material respects, and for the fact that the annual financial statements, in compliance with the German principles of proper accounting, give a true and fair view of the net assets, financial position and results of operations of the society conveys.

Furthermore, the legal representatives are responsible for the internal controls which they have determined to be necessary in accordance with the German principles of proper accounting in order to enable the preparation of annual financial statements,

In preparing the annual financial statements, the legal representatives are responsible for assessing the company'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, provided no actual or legal circumstances conflict therewith.

In addition, the legal representatives are responsible for preparing the management report, which as a whole provides a suitable view of the company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the

precautions and measures (systems) they have deemed necessary to enable the preparation of a management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the management report be able.

Auditor's responsibility for the audit of the annual financial statements and the management report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material - intentional or unintentional - misstatements and whether the management report as a whole provides a suitable view of the company's position and, in all material respects, with the annual financial statements and is consistent with the findings obtained in the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report which contains our audit opinions on the annual financial statements and on the management report.

Adequate assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with § 317 HGB, taking into account the German principles of proper annual auditing established by the Institute of Public Accountants (IDW), will always uncover a material misstatement. Misstatements may 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 made on the basis of these financial statements and management report.

During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore

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We identify and assess the risks of material - intentional or unintentional - misstatements in the annual financial statements and in the management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to serve as a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is greater than that arising from error, as fraud involves collusion, forgery, intentional omissions, misrepresentations or

We gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate in the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these systems of society.

We evaluate the appropriateness of the accounting methods used by the legal representatives and the justifiability of the estimated values presented by the legal representatives and the related disclosures.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that cast significant doubt on the Company's ability to continue as a going concern can raise. If we conclude that there is a material uncertainty, we are required to draw attention to the related disclosures in the financial statements and management report in the auditor's report, or if this information is inappropriate, to modify our respective audit opinion. We base our conclusions on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

We evaluate the overall presentation, the structure and the content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements, in compliance with the German principles of proper accounting, give a true and fair view of the assets, financial and earnings situation of the company.

We assess the consistency of the management report with the annual financial statements, its compliance with the law and the view it conveys of the company's situation.

we perform audit procedures on the future-oriented information presented by the legal representatives in the 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 provide a separate audit opinion on the future-oriented information and the underlying assumptions. There is a significant unavoidable risk

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

Bielefeld, September 4, 2020

PricewaterhouseCoopers GmbH
auditing company
dr Thomas Ull, auditor
ppa. Matthias Nicolmann, auditor

The annual financial statements as of December 31, 2019 were approved on October 9, 2020.

◀ previous entry

Back to the search result



Next entry ▶

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