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Vetter Pharma-Manufacturing GmbH & Co. KG	Accounting / financial reports	Consolidated financial statements for the financial year from 01/01/2016 to 12/31/2016	January 18, 2018
Surname	**Area**	**information**	**V. date**

Vetter Pharma-Manufacturing GmbH & Co. KG

Ravensburg

Consolidated financial statements for the financial year from 01/01/2016 to 12/31/2016

Certificate

In the documents intended for disclosure - the consolidated balance sheet and annex to the consolidated balance sheet as well as the notes to the consolidated financial statements and the group management report - the simplifications pursuant to Section 13 (3) sentence 2 in conjunction with V. m. Section 5 (5) sentence 3 of the PublG has been correctly used. In addition, the consolidated balance sheet has been reduced to the statutory structure and the notes to the consolidated financial statements have been adjusted accordingly. We have issued the following auditor's report on the complete consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by Vetter Pharma-Fertigung GmbH & Co. KG, Ravensburg - consisting of the balance sheet, income statement and notes - and the group management report for the financial year from January 1 to December 31, 2016. The The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the company's legal representatives.Our task is to express an opinion on the consolidated financial statements and the group management report on the basis of our audit.

We have carried out our audit of the consolidated financial statements in accordance with Section 14 (1) PublG i. V. m. Section 317 of the German Commercial Code (HGB) in compliance with the German principles of proper auditing established by the Institute of Auditors (IDW). Accordingly, the audit is to be planned and performed in such a way that inaccuracies and violations that have a material impact on the presentation of the asset, financial and earnings position conveyed by the consolidated financial statements in accordance with the principles of proper bookkeeping and the group management report, with sufficient certainty be recognized. When determining the audit procedures, knowledge of the business activities and the economic and legal environment of the group as well as expectations of possible errors are taken into account. As part of the audit, the effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are assessed primarily on the basis of random samples. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the delimitation of the scope of consolidation, the accounting and consolidation principles used and the significant estimates made by the legal representatives as well as the assessment of the overall presentation of the consolidated financial statements and the group management report. We are of the opinion that our audit forms a sufficiently secure basis for our assessment.

Our audit has not led to any reservations.

In our opinion, based on the knowledge gained during the audit, the consolidated financial statements comply with the statutory provisions and, in compliance with the principles of proper bookkeeping, give a true and fair view of the Group's asset, financial and earnings position. The group management report is consistent with the consolidated financial statements, complies with the legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development. "

Ravensburg, March 10, 2017

Ernst & Young GmbH
auditing company

Arnold, auditor

Guard, auditor

Consolidated balance sheet as of December 31, 2016

assets

				December 31, 2015
	€	€	€	T €
A. Fixed assets				
I. Intangible Assets				
IT software acquired against payment		3,402,663.31		4,884
II. Tangible assets				
1. Land and buildings including buildings on third-party land	104,286,622.10			88,949
2. Technical systems and machines	96,857,970.97			92,952
3. Other equipment, factory and office equipment	26,922,380.31			25,295
4. Advance payments and assets under construction	137,265,226.05			90,674
		365,332,199.43		297,870
III. Financial assets				
Shares in affiliated companies		357,938.52		213
			369,092,801.26	302.967
B. Current Assets				

	€	€	€	December 31, 2015 T €
I. Inventories				
1. Raw materials and supplies	42,960,857.43			33,152
2. Work in progress	30,414,975.86			26,700
3. Finished products and merchandise	15,856,686.13			17,064
4. Advance payments made	765,330.00			0
5. Advance payments received	- 4,923,804.00			- 4,090
		85,074,045.42		72,826
II. Receivables and other assets				
1. Trade accounts receivable	90,793,796.90			79,521
2. Other assets	16,636,583.84			20,803
		107,430,380.74		100,324
III. Cash on hand, bank balances		8,970,193.89		27,797
			201,474,620.05	200,947
C. Prepaid expenses			1,845,330.65	1,816
			572,412,751.96	505.730

liabilities

	€	€	December 31, 2015 T €
A. Equity		249,723,447.52	217,847
B. Adjustment items for capitalized own shares		41,000.00	41
C. Provisions			
1. Tax provisions	1,055,134.51		4,205
2. Other provisions	26,609,092.58		22,054
		27,664,227.09	26,259
D. Liabilities			
1. Liabilities to banks	182,000,000.00		140.238
2. Advance payments received on orders	25,257,386.46		28.210
3. Trade accounts payable	23,803,659.23		20,160
4. Liabilities to affiliated companies	0.00		38
5. Other Liabilities	63,779,950.47		72,078
of which from taxes € 115,322,831.41 (previous year: € 14,804 thousand)			
of which in the context of social security € 76,111.54 (previous year: € 354 thousand)			
		294,840,996.16	260.724
E. Prepaid expenses		143,081.19	859
		572,412,751.96	505.730

Annex to the consolidated balance sheet as of December 31, 2016

	€
Sales	503,240,775.11
Wages and salaries, social security contributions, and pension and support expenses	228,459,050.77
The group employed an average of 3,731 people in 2016.	

The valuation and depreciation methods are explained in the notes to the consolidated financial statements.

Notes to the consolidated financial statements for 2016

I. General information on the consolidated financial statements

Vetter Pharma-Fertigung GmbH & Co. KG, based in Ravensburg, is entered in the commercial register of the Ulm District Court under HRA No. 550954.

The present consolidated financial statements were prepared in accordance with the provisions of the Act on Accounting for Certain Enterprises and Groups (Publicity Act) in conjunction with the relevant provisions of the Commercial Code.

Scope of consolidation

In addition to Vetter Pharma Fertigung GmbH & Co. KG, the following companies are included in the consolidated financial statements:

	Amount of shares in capital%
Vetter Pharma International GmbH, Ravensburg	100.00
Vetter Development Services USA, Inc., Skokie, Illinois (USA)	100.00 [1)]
Vetter Pharma International USA Inc. Skokie, Illinois (USA)	100.00 [1)]
Arzneimittel GmbH Apotheker Vetter & Co. KG Ravensburg	100.00
Vetter Pharma International Japan KK Tokyo (Japan)	100.00 [1) 2)]

1) Indirect participation, held by Vetter Pharma International GmbH, Ravensburg.

2) First-time consolidation as of January 1, 2016

Vetter Pharma-Fertigung Verwaltungs-GmbH, Bregenz / Austria, Vetter Consulting GmbH, Graz / Austria and Vetter Commercial Manufacturing USA, LLC, Des Plaines / USA were not included in the consolidated financial statements due to their small business volume in accordance with Section 296 (2) HGB included. They are of subordinate importance for the obligation to convey a true and fair view of the Group's asset, financial and earnings position. The sole shareholder of Vetter Pharma-Fertigung Verwaltungs-GmbH and Vetter-Consulting GmbH is Vetter Pharma-Fertigung GmbH & Co. KG.

Vetter Commercial Manufacturing USA, LLC, Des Plaines / USA is 100% indirectly held by Vetter Pharma International GmbH.

Consolidation principles

Capital consolidation was carried out using the revaluation method at the time of initial inclusion in the consolidated financial statements.

The passive difference from the first-time consolidation of Arzneimittel GmbH Apotheker Vetter & Co. KG was transferred to the reserve with no effect on income in the 2013 financial year, as it arose from the fact that the shares in this company acquired by way of contribution in kind were included in the annual financial statements of Vetter Pharma-Fertigung GmbH & Co. KG were valued at a value below the fair value

As a result of the first-time consolidation of Vetter Pharma International Japan KK, equity increased by T € 10 and liquid funds by T € 129.

Receivables and liabilities, sales, expenses and income within the scope of consolidation have been eliminated. There were no interim results.

Currency conversion

With the exception of equity, which was converted into euros at the historical rate, the assets and liabilities items in foreign currency balance sheets were converted into euros at the mean spot exchange rate on the reporting date. The items in the income statement have been converted into euros at the average rate for the year. A resulting conversion difference was shown in the item "Equity difference from currency conversion".

The currency differences resulting from debt consolidation are also recognized directly in equity in the item "Equity difference from currency conversion".

II. Information on accounting and valuation methods

The following accounting and valuation methods were decisive for the preparation of the consolidated financial statements.

The intangible fixed assets acquired against payment are valued at acquisition cost, reduced by scheduled, pro-rata straight-line depreciation (with a normal useful life of up to five years).

Property, plant and equipment is reported at acquisition or production cost and, if depreciable, reduced by scheduled, pro-rata linear or degressive depreciation based on the expected useful life. Additions to assets after December 31, 2010 are only depreciated using the straight-line method.

Wearable movable assets, the value of which for the individual asset does not exceed € 150.00, were recognized in full as an expense. Low-value assets with acquisition costs between € 150.01 and € 410.00 are fully written off in the year of acquisition. They are shown as disposals after an assumed useful life of five years.

The financial assets are stated at acquisition cost or at the lower applicable value.

The valuation of raw materials, consumables and supplies is based on average acquisition costs or the last lower acquisition price, less a deduction for discounts. All inventory risks for raw materials, consumables and supplies, which result from the storage period or reduced usability, are taken into account by means of appropriate value deductions.

The unfinished and finished goods are valued according to the degree of manufacture at the manufacturing costs in accordance with Section 255 of the German Commercial Code. Material and manufacturing overheads are also taken into account.

Receivables and other assets are always valued at their nominal value. All risky items are taken into account by making appropriate individual value adjustments. The general default and credit risk is adequately taken into account by a general value adjustment of 1% on the net receivables. Receivables in foreign currency are valued at the mean spot exchange rate on the balance sheet date. With a remaining term of more than one year, the realization and acquisition cost principles are observed.

Bank balances in foreign currencies are converted at the mean spot exchange rate on the balance sheet date.

The other provisions take into account all identifiable risks and uncertain liabilities and are recognized at the settlement amount. Other provisions with a remaining term of more than one year have been discounted using the interest rate appropriate to the term in accordance with the Provision Discounting Ordinance.

The liabilities are shown at the settlement amount. Liabilities in foreign currencies are converted using the mean spot exchange rate on the balance sheet date. With a remaining term of more than one year, the realization and acquisition cost principles are observed.

III. Information on the balance sheet

1. Assets

Capital assets

The development of the individual items of fixed assets is shown in the separate overview "Development of Group Fixed Assets".

Receivables and other assets

As in the previous year, all receivables have a remaining term of less than one year.

The other assets contain amounts of T € 507, which legally arise after the balance sheet date. These are input tax claims that will be deducted in 2017.

2. Liabilities

Other provisions

The other provisions essentially contain obligations from the personnel area and provisions for guarantee obligations.

liabilities

		Amounts with a remaining term		
	Total	up to 1 year	from 1 - 5 years	of more than 5 years
	T €	T €	T €	T €
Liabilities to banks	182,000	32,000	69,000	81,000
(Previous year)	(140,238)	(5,966)	(126,772)	(7,500)
Advance payments received on orders	25,257	8,140	15,574	1,543
(Previous year)	(28,210)	(12,020)	(14,764)	(1,426)
liabilities from goods and services	23,804	23,804		
(Previous year)	(20,160)	(20,160)	(0)	(0)
Liabilities to affiliated companies	0	0		
(Previous year)	(38)	(38)	(0)	(0)
Other liabilities	63,780	63,780		
(Previous year)	(72,078)	(72,078)	(0)	(0)
	294,841	127.724	84,574	82,543

Deferred taxes

The right to vote according to § 298 Paragraph 1 i. V. m. Section 274 (1) sentence 2 of the German Commercial Code (HGB) not to account for an excess of deferred tax assets over deferred tax liabilities is used.

V. Other information

1. Contingent liabilities and other financial obligations

The total amount of the other financial obligations amounts to T € 145,080. These are essentially purchase contracts for capital goods, obligations from rental and leasing contracts and a supply contract for biogas and logistics services.

2. Derivative Financial Instruments

Contracts for derivative financial instruments exist as of the balance sheet date to the following extent:

	Nominal amount	Market value	Book value
Type of financial instrument	T €	T €	T €

Type of financial instrument	Nominal amount T €	Market value T €	Book value T €
Forward foreign exchange transactions	24,884	+1,933	0
Interest rate swaps	30,000	- 228	- 76

Derivative financial instruments are only used to hedge against currency and interest rate risks from operational business and, if applicable, from financing transactions. The aim is to reduce fluctuations in the cash and earnings flows of the Vetter Group due to changes in exchange rates and interest rates. The market value of the derivative financial instruments is determined using recognized calculation methods, taking into account the market data available on the balance sheet date.

To minimize the risk of changes in interest rates, the company has hedged variable interest liabilities with a nominal volume of T € 20,000 and a remaining term up to 2017 through interest rate swaps with matching maturities ("portfolio hedge"). The underlying and hedging transactions were combined in valuation units so that negative market values are not recognized as part of the freezing method. The prospective effectiveness of the valuation units is measured using the critical term match method, the retrospective effectiveness is determined using the hypothetical derivative method. As of December 31, 2016, the variable debt was reduced by T € 10,000. This led to that an interest rate swap in the amount of T € 10,000 no longer has an offsetting transaction. A provision for anticipated losses was set up in the amount of the negative market value of T € 76.

To cover currency risks from operating cash flows in foreign currencies (mainly USD), the company concluded forward exchange transactions with a nominal volume of T € 24,884 and terms of up to three years ("macro hedge") on the balance sheet date. Underlying and hedging transactions have been completely combined in valuation units, the effectiveness of which is measured prospectively using the critical term match method and retrospectively using the cumulative dollar offset method. The anticipated underlying transactions have a very high probability of occurrence, as these are exclusively clearly identifiable cost items - reduced by planned inflows in the US business,

3. Transactions with related persons and companies

In 2016, the Group paid a total of € 2,774,000 for the use of services, € 1,923,000 for interest and € 182,000 for rent to related companies.

T € 72 was paid to related parties for services.

Related companies received T € 480 for services and T € 12 for rentals.

4. Supplementary report

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

5. Disclosure

Vetter Pharma-Fertigung GmbH & Co. KG, Ravensburg, does not disclose its annual financial statements using Section 5 (5) PublG in conjunction with Section 264 (3) HGB.

6. Total auditor's fee

The fee for auditing the consolidated financial statements of Vetter Pharma-Fertigung GmbH & Co. KG as well as the individual financial statements of the parent company and Vetter Pharma International GmbH amounts to a total of T € 151, of which T € 100 is for auditing services and T € 51 for other consulting services.

Ravensburg, March 10, 2017

signed Oliver Albrecht, Managing Director

signed Thomas Otto, Managing Director

signed Peter Sölkner, Managing Director

Development of group assets in 2016

	Acquisition and production costs					
	01/01/2016 €	Currency differences €	Additions €	Rebookings	Disposals €	12/31/2016 €
I. Intangible Assets						
IT software acquired against payment	28,849,370.97	1,268.44	436,602.93	181,802.06	871,004.29	28,598,040.11
II. Tangible assets						
1. Land and buildings including buildings on third-party land	124,190,944.02	55,232.41	2,265,661.05	18,016,502.61	1,442,851.18	143,085,488.91
2. Technical systems and machines	383,785,910.31	214,648.79	873,969.28	26,005,296.45	3,413,921.42	407,465,903.40
3. Other equipment, factory and office equipment	95,343,943.37	160,791.46	2,253,828.76	9,203,376.54	3,801,348.34	103,160,591.79
4. Advance payments and assets under construction	90,673,665.92	9,267.52	99,994,677.56	- 53,406,977.66	5,407.29	137,265,226.05
	693,994,463.62	439,940.18	105,388,136.65	- 181,802.06	8,663,528.23	790,977,210.15
III. Financial assets						
Shares in affiliated companies	212,730.71	0.00	290,725.85	0.00	145,518.04 [1)]	357,938.52
	723,056,565.30	441,208.62	106,115,465.43	0.00	9,680,050.56 [1)]	819,933,188.78

	Accumulated depreciation				
	01/01/2016 €	Currency differences €	Additions €	Disposals €	12/31/2016 €
I. Intangible Assets					
IT software acquired against payment	23,965,299.66	1,108.23	2,096,026.59	867,057.68	25,195,376.80
II. Tangible assets					
1. Land and buildings including buildings on third-party land	35,241,398.10	10,681.72	4,713,764.18	1,166,977.19	38,798,866.81
2. Technical systems and machines	290,834,069.86	132,575.44	22,923,191.61	3,281,904.48	310,607,932.43
3. Other equipment, factory and office equipment	70,048,305.68	140,103.92	9,795,813.19	3,746,011.31	76,238,211.48
4. Advance payments and assets under construction	0.00	0.00	0.00	0.00	0.00
	396,123,773.64	283,361.08	37,432,768.98	8,194,892.98	425,645,010.72
III. Financial assets					
Shares in affiliated companies	0.00	0.00	0.00	0.00	0.00
	420,089,073.30	284,469.31	39,528,795.57	9,061,950.66	450,840,387.52

	Book values	
	12/31/2016 €	12/31/2015 €
I. Intangible Assets		
IT software acquired against payment	3,402,663.31	4,884,071.31
II. Tangible assets		
1. Land and buildings including buildings on third-party land	104,286,622.10	88,949,545.92
2. Technical systems and machines	96,857,970.97	92,951,840.45
3. Other equipment, factory and office equipment	26,922,380.31	25,295,637.69

	Book values 12/31/2016 €	12/31/2015 €
4. Advance payments and assets under construction	137,265,226.05	90,673,665.92
	365,332,199.43	297,870,689.98
III. Financial assets		
Shares in affiliated companies	357,938.52	212,730.71
	369,092,801.26	302,967,492.00

[1)] Thereof change in the scope of consolidation € 145,518.04.

Group management report for 2016

Business activity

The Vetter Group is a leading global specialist in the development and aseptic filling of medicines in syringes, cartridges and vials. Vetter has many years of experience in dealing with biotechnological agents and complex substances including monoclonal antibodies, peptides, interferons and vaccines. Vetter supports pharmaceutical and biotech companies from preclinical development to supplying the world market. The Vetter Development Service takes over the clinical production and supports the development of new drugs from the early phases through to the transfer to commercial production. The group offers modern technology and innovative processes for filling,

The Vetter Group is based in Ravensburg and includes the production sites in Upper Swabia as well as sales and development service sites in the USA, Singapore and Japan.

Business development and situation in 2016

In 2016, the number of new drug approvals fell in both the USA and Germany compared to the previous year. With 22 drugs, the US authority CDER brought only about half as many new products onto the market as in 2015. This was due, among other things, to a decline in approval applications, an increase in rejected applications and an accelerated approval of several drugs as early as 2015, which was originally expected for 2016. Around two thirds of the 22 new registrations mentioned are injectables, half of which are monoclonal antibodies. In addition, three new oligonucleotide drugs have been approved in the United States.

Global sales in the medical sector totaled around 1,105 billion US dollars in 2016, of which 462 billion were in the USA alone. Over the next five years, global sales growth is expected to be at an annual growth rate of 4-7%, so that global pharmaceutical sales of approximately 1,470 billion US dollars are predicted for 2021. In the USA, with an annual rate of increase of 6-9%, disproportionately high growth is still expected.

Rare diseases remain a very intensely pursued therapeutic area for pharmaceutical and biotech companies. In 2016, the American regulatory authority approved 13 so-called "orphan drugs", ten of them injectables. These usually achieve very high market prices, such as the newly approved drug Spinraza ™ at the end of December 2016 with a planned price of 750,000 US dollars for the first year of treatment and 375,000 US dollars in the following years. In Germany, the proportion of orphan drugs was 33% or 10 of the 30 new drugs could be assigned to this category.

The trend of the past few years towards consolidation in the contract manufacturing segment weakened, as only five M&A transactions were carried out in the field of aseptic filling in 2016.

Sales development

In an unchanged positive market environment, we were able to increase sales by around 9.0% to € 503 million in the 2016 financial year. Our business areas in Commercial Manufacturing grew by 6.6% and Development Service by 13.2%. Particularly noteworthy is the increase in the Development Service area, as the projects being processed there will generate future sales in the commercial manufacturing area on the one hand, but are also evidence of the continuing trend towards specialized drugs on the other. The diversification of our customer structure continued in the past financial year and forms the basis for our solid business model.

Regulatory environment

As in previous years, the market segment relevant for Vetter in the area of aseptic filling of drugs was subject to continuously increasing regulatory requirements in 2016. Despite this challenging environment, we were able to complete all regulatory inspections without any significant findings and subsequently continue to position ourselves positively in the competitive environment.

internationalization

After the successful establishment of new sales offices in Singapore (2014) and Japan (2015), our main sales market, the USA, became the focus of Vetter's further internationalization in the past year as part of the implementation of our corporate strategy. In 2016, for example, we were initially able to acquire the purchase option for a conveniently located property in Des Plaines in the state of Illinois, which is ideally suited for the further expansion of our US activities, which is expected to be realized in 2017. The property, which is a short distance from our existing Development Service location in Skokie, offers us the opportunity to set up a commercial manufacturing unit in the most important single market in the pharmaceutical industry.

Earnings situation

The earnings of the Vetter Group developed positively in the course of the growth in sales. Sales and earnings for the financial year are in line with our forecast in the management report of the previous year. We therefore rate the overall development as very satisfactory.

Financial position

As of December 31, 2016, the balance sheet total grew by 13.2% compared to the previous year to € 572.4 million. This growth is due in particular to our investment activities and the associated expansion of fixed assets.

Liquidity / cash flow

The continued strong operating cash flow was offset by higher cash flows from investments based on our intensified investment activities, which, as expected, resulted in a negative free cash flow overall. The main investment projects in the past financial year related to the expansion of our production capacities and the further expansion of the logistics and optical control center at the Ravensburg location.

Financing structure

The Vetter Group's equity amounted to € 250 million in the financial year. In the course of the expansion of the investment projects, the volume of liabilities to banks rose by € 42 million.

The Vetter Group's financing strategy aims to ensure long-term, solid corporate financing using various financing instruments. Borrowed capital is raised exclusively through the parent company. In addition to various long-term promotional loan commitments and promissory note loans, Vetter also has a syndicated credit line from 2012 with a remaining term until March 2019, which is currently used at 13%, to implement further planned investment projects in the following years.

Use of financial derivatives

In the reporting year, Vetter only used derivative financial instruments to hedge currency and / or interest positions in order to minimize currency risks and financing costs caused by exchange rate and interest rate fluctuations. We use marketable currency forwards and interest rate swaps as instruments. Such derivatives are used as part of our continuously monitored risk strategy, which also includes hedging measures in the medium and long term.

Research and Development

In addition to customer-specific process development as part of the customer projects of the Vetter Development Service, we are constantly developing our innovative packaging systems and internal processes. The Vetter-Ject® syringe closure system, which was developed internally, won another prestigious packaging award from the World Packaging Organization in 2016.

Opportunities and risk report

The risk policy defined by the management is the basis for the actions of all those involved. The overriding principle of this policy is to take advantage of opportunities, but only to take the risks associated with business activity if added value is created for the company and the company's goals are not jeopardized.

The Vetter Group has established a group-wide risk management system for the early detection and proactive control of significant risks. The guidelines for risk management are defined company-wide in an overarching risk manual.

To assess and delimit the relevant risks, Vetter has developed a five-level relevance scale that shows possible negative effects on company results. As part of the risk aggregation, the individual risks assessed in this way can be combined and assessed to form an overall corporate risk. In the risk assessment carried out periodically at the end of 2016, no risks to the company's existence were identified. Receiving a so-called "Warning Letter" from the FDA represents the greatest risk for the Vetter Group. We counter this risk with an advanced pharmaceutical quality and risk management system, so that we currently rate the probability of occurrence as low.

Overall, the assessment of the current risk situation shows that there are no risks going beyond the general market and industry-typical influences that could endanger the continued existence of the company and that no future risks that endanger the existence of the company are currently discernible.

In principle, against the background of the company's excellent substance and profitability, it is possible for Vetter to pursue an opportunity-oriented strategy that allows for higher levels of risk. The key criteria for the positive implementation of the strategy are the maintenance of the good market position and the underlying reputation, the ability to innovate and the attractiveness of the employer for the acquisition of qualified personnel.

Outlook for further developments in 2017

The prospects for the development of the global pharmaceutical market are still positive, even if the high level of sales growth of 2014 and 2015 cannot be achieved. However, this does not represent a slump in growth, but a normalization and is due to special effects, including exceptionally high sales for hepatitis therapies in these years. The research and development activities will continue, with numerous new innovative drugs for diseases that were previously hardly treatable.

One of the greatest challenges will be the increasing pressure from payers and patients on pricing, so that cost-benefit analyzes and new reimbursement models will become increasingly important. The effects of patent expiries for biological preparations are still difficult to assess, but will probably only have a minor impact on the pharmaceutical industry until 2020, as it will take some time before the patent disputes between the original product manufacturers and the manufacturers of the biosimilar preparations are resolved. The continuous orientation towards a small-volume, high-quality product model,

Vetter's market situation depends heavily on the activities and performance of the pharmaceutical and biotechnology companies. The following trends are emerging for 2017:

In the area of drug innovations, development will continue to focus on drugs for special therapy areas, so that their share of sales will increase from 30% in 2016 to 35% in 2021. Cancer therapies will make up the largest share in 2021, followed by diabetes. However, the highest annual growth of 11-14% over the next five years is expected in autoimmune biological therapies.

Although the exact plans of the new US administration are not yet known, it is expected that changes in US tax policy will lead to a revival of M&A activities in America as well as increased investment in the pharmaceutical sector.

The market for contract manufacturing will continue to grow in 2017, whereby better development opportunities are expected for innovation-driven companies with an annual increase in sales of 6-8% than for capacity-driven contract manufacturers, which will probably only grow in the low single-digit range. The industry will remain under high competitive pressure due to the trend towards low-volume special products, the unchecked investments by the large pharmaceutical and biotech companies in their own production facilities, the increasing cost burden on health systems and the continuously increasing requirements of the regulatory authorities.

Against this background, we expect another year of growth in 2017 with an increase in sales and operating profit in the single-digit percentage range. We intend to slightly exceed the market growth on the sales side.

Ravensburg, March 10, 2017

The Board
