search result

Surname	Area	information	V. date
Vetter Pharma-Manufacturing GmbH & Co. KG Ravensburg	Accounting / financial reports	Consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017	02/15/2019

Vetter Pharma-Manufacturing GmbH & Co. KG

Ravensburg

Consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017

Certificate

In the documents intended for disclosure - 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 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:

"Independent Auditor's Report

To Vetter Pharma-Fertigung GmbH & Co. KG

Examination Opinions

We have prepared the consolidated financial statements of Vetter Pharma-Fertigung GmbH & Co. KG, Ravensburg and its subsidiaries (the group) - consisting of the consolidated balance sheet as of December 31, 2017 and the consolidated income statement for the financial year from January 1 to December 31, 2017 and the notes to the consolidated financial statements, including the presentation of the accounting and valuation methods. In addition, we have audited the group management report of Vetter Pharma-Fertigung GmbH & Co. KG for the fiscal year from January 1 to December 31, 2017.

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

- the attached consolidated financial statements comply in all material respects with German commercial law regulations and, in compliance with German generally accepted accounting principles, give a true and fair view of the Group's assets and financial position as of December 31, 2017, as well as its earnings position for the financial year from January 1 to as of December 31, 2017 and
- the attached group management report gives an overall accurate picture of the group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development.

In accordance with Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the consolidated financial statements and the group management report.

Basis for the examination results

We have carried out our audit of the consolidated financial statements and the group management report 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 Institut der Wirtschaftsprüfer (IDW). Our responsibility in accordance with these regulations and principles is described in more detail in the section “Responsibility of the auditor for the audit of the consolidated financial statements and the group management report” of our auditor's report. We are independent of the group companies in accordance with German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements.

Responsibility of the legal representatives for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with the German commercial law in all essential respects, and for ensuring that the consolidated financial statements provide a true and fair view of the assets, financial and earnings position of the company in accordance with German principles of proper accounting Group mediated. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with German generally accepted accounting principles in order to enable the preparation of consolidated financial statements that are free from material - intended or unintentional - misrepresentation.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing issues relating to the going concern of the company, if relevant. In addition, they are responsible for accounting for the going concern basis of accounting, unless actual or legal circumstances conflict with this.

In addition, the legal representatives are responsible for the preparation of the group management report, which as a whole provides an accurate picture of the group’s position, is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and appropriately presents the opportunities and risks of future development . Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a group management report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements in the group management report can.

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

Our aim is to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free of material - intended or unintentional - misstatements and whether the group management report as a whole gives an accurate picture of the Group's position and, in all material matters, with the consolidated financial statements as well is consistent with the knowledge gained during the audit, complies with German legal requirements and correctly presents the opportunities and risks of future development, and issues an auditor's report that includes our audit opinions on the consolidated financial statements and the group management report.

Adequate security is a high level of security, but no guarantee that an audit carried out in accordance with Section 317 of the German Commercial Code (HGB) in accordance with the German principles of proper auditing established by the Institute of Auditors (IDW) will always reveal a material misrepresentation. Misrepresentations can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they individually or collectively influence the economic decisions of the addressees made on the basis of these consolidated financial statements and the group management report.

During the examination, we exercise due discretion and maintain a critical attitude. Furthermore

- we identify and assess the risks of material - intentional or unintentional - misrepresentations in the consolidated financial statements and the group management report, plan and carry out audit procedures in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misrepresentations are not detected is higher in the case of violations than inaccuracies, since violations can include fraudulent interaction, forgeries, intentional incompleteness, misleading representations or the overriding of internal controls;
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the provisions and measures relevant to the audit of the group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these Dispense systems;
- we assess the appropriateness of the accounting methods used by the legal representatives as well as the acceptability of the estimated values presented by the legal representatives and related information;
- we draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances, the significant doubts about the Group's ability to continue as a going concern can raise. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and in the group management report in the auditor’s report, or if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances can, however, mean that the Group can no longer continue its business activities;
- we assess the overall presentation, structure and content of the consolidated financial statements, including the information, and whether the consolidated financial statements present the underlying business transactions and events in such a way that the consolidated financial statements provide a true and fair view of the assets, financial and earnings position of the group conveyed;
- We obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the group in order to issue audit opinions on the consolidated financial statements and the group management report. We are responsible for the direction, supervision and execution of the group audit. We are solely responsible for our audit opinions.
- We assess the consistency of the group management report with the consolidated financial statements, its compliance with the law and the picture it provides of the group’s position.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the group management report. On the basis of adequate, suitable audit evidence, we particularly review the significant assumptions on which the legal representatives are based on the future-oriented information and assess the appropriate derivation of the future-oriented information from these assumptions. We do not issue an independent audit opinion on the future-oriented information or the underlying assumptions. There is a significant unavoidable risk

We discuss with those responsible for monitoring, among other things, the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system that we discover during our audit. "

Ravensburg, March 9, 2018

Ernst & Young GmbH
auditing company

Arnold, auditor

Guard, auditor

Consolidated balance sheet as of December 31, 2017

assets

				December 31, 2016
	€	€	€	T €
A. Fixed assets				
I. Intangible Assets				
IT software acquired against payment		3,396,101.53		3,403
II. Tangible assets				
1. Land and buildings including buildings on third-party land	141,016,945.88			104.287
2. Technical systems and machines	151,400,596.77			96,858
3. Other equipment, factory and office equipment	38,231,496.80			26,922
4. Advance payments and assets under construction	128,516,804.21			137.265
		459,165,843.66		365.332
III. Financial assets				
Shares in affiliated companies		67,212.67		358
			462,629,157.86	369.093
B. Current Assets				
I. Inventories				
1. Raw materials and supplies	45,484,196.79			42,961
2. Work in progress	22,500,238.75			30,415
3. Finished products and merchandise	20,365,100.72			15,857
4. Advance payments made	75,000.00			765
5. Advance payments received	-6,788,293.73			-4,924
		81,636,242.53		85,074
II. Receivables and other assets				
1. Trade accounts receivable	107,385,155.43			90.794
2. Other assets	20,775,530.79			16,637
		128,160,686.22		107,431
III. Cash on hand, bank balances		1,702,049.92		8,970

	€	€	€	December 31, 2016 T €
			211,498,978.67	201,475
C. Prepaid expenses			2,387,370.36	1,845
			676,515,506.89	572,413

liabilities

	€	€	December 31, 2016 T €
A. Equity		294,790,241.09	249.723
B. Adjustment items for capitalized own shares		41,000.00	41
C. Provisions			
1. Tax provisions	512,871.91		1,055
2. Other provisions	31,409,195.59		26,609
		31,922,067.50	27,664
D. Liabilities			
1. Liabilities to banks	246,800,000.00		182,000
2. Advance payments received on orders	35,366,876.31		25,258
3. Trade accounts payable	22,566,993.70		23,804
4. Other Liabilities	45,028,328.29		63,780
of which from taxes € 12,279,443.96 (previous year: € 15,323 thousand)			
of which in the context of social security € 137,263.38 (previous year: € 76 thousand)			
		349,762,198.30	294,842
E. Prepaid expenses		0.00	143
		676,515,506.89	572,413

Annex to the consolidated balance sheet as of December 31, 2017

	€
Sales	562,062,503.20
Wages and salaries, social security contributions, and pension and support expenses	253,217,495.29

The group employed an average of 4,116 people in 2017.

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

Notes to the consolidated financial statements for 2017

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 the capital %
Vetter Pharma International GmbH, Ravensburg	100.00
Vetter Development Services USA, Inc., Skokie, Illinois (USA)	100.00 1)
Vetter Pharma International USA Inc., Kokie, Illinois (USA)	100.00 1)
Arzneimittel GmbH Apotheker Vetter & Co. KG, Ravensburg	100.00
Vetter Pharma International Japan KK, Tokyo (Japan)	100.00 1)
Vetter Commercial Manufacturing USA, LLC, Des Plaines, Illinois (USA)	100.00 1) 2)

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

2) First-time consolidation as of January 1, 2017.

Vetter Pharma-Fertigung Verwaltungs-GmbH, Bregenz / Austria and Vetter Consulting GmbH, Graz / Austria were not included in the consolidated financial statements due to their small business volume in accordance with Section 296 (2) HGB. 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.

Consolidation principles

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

The negative difference from the initial consolidation of Arzneimittel GmbH Apotheker Vetter & Co.KG in the 2013 financial year was transferred to the reserves with no effect on income, as it arose from the fact that the shares in this company acquired through the 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.

The first-time consolidation of Vetter Commercial Manufacturing USA, LLC increased fixed assets by T € 237 and cash and cash equivalents by T € 12.

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.

Assets with individual purchase costs of more than € 150.00 to € 1,000.00 are recorded in a collective item, which is depreciated on a straight-line basis over 5 years. Their departure is assumed in the fifth year after acquisition. Assets with individual purchase costs of up to € 150.00 are not capitalized.

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 € 359, which only arise legally after the balance sheet date. These are input tax claims that will be deducted in 2018.

2. Liabilities

Other provisions

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

liabilities

	total	Amounts with a remaining term		
		up to 1 year	from 1 to 5 years	of more than 5 years
	T €	T €	T €	T €
Liabilities to banks	246,800	20,300	139.937	86,563
(Previous year)	(182,000)	(32,000)	(69,000)	(81,000)
Advance payments received on orders	35,367	9,624	24.094	1,649
(Previous year)	(25,258)	(8,141)	(15,574)	(1,543)
liabilities from goods and services	22,567	22,567		
(Previous year)	(23,804)	(23,804)	(0)	(0)
Other liabilities	45,028	45,028		
(Previous year)	(63,780)	(63,780)	(0)	(0)
	349,762	97,519	164.031	88,212

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 € 192,434. 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:

Type of financial instrument	Nominal amount	Market value	Book value
	T €	T €	T €
Forward foreign exchange transactions	7,428	-390	0

Derivative financial instruments are only used to hedge currency risks from operational business and, if necessary, 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. 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 cover currency risks from operating cash flows in foreign currencies (mainly USD), the company concluded forward exchange transactions with a nominal volume of € 7,428 thousand 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 2017, the Group paid a total of T € 2,820 for the use of services, T € 2,101 for interest and T € 187 for rent to related companies.

T € 71 was paid to related parties for services.

Related companies received T € 456 for services and T € 14 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 € 112 thousand.

Ravensburg, March 9, 2018

signed Oliver Albrecht, Managing Director

signed Thomas Otto, Managing Director

signed Peter Sölkner, Managing Director

Development of group assets in 2017

	Acquisition and production costs		
	1.1.2017	Currency differences	Accesses
	€	€	€
I. Intangible Assets			
IT software acquired against payment	28,598,040.11	-4,184.94	322,611.43
II. Tangible assets			
1. Land and buildings including buildings on third-party land	143,085,488.91	-253,571.68	3,736,554.19
2. Technical systems and machines	407,465,903.40	-766,044.08	436,479.13
3. Other equipment, fixtures and fittings	103,160,591.79	-578,649.54	3,847,967.96
4. Advance payments and assets under construction	137,265,226.05	-17,708.27	132,672,059.04 1)
	790,977,210.15	-1,615,973.57	140,693,060.32 1)
III. Financial assets			
Shares in affiliated companies	357,938.52	0.00	0.00
	819,933,188.78	-1,620,158.51	141,015,671.75 1)

	Acquisition and production costs		
	Rebookings	Departures	December 31, 2017
	€	€	€
I. Intangible Assets			
IT software acquired against payment	1,742,347.56	32,162.10	30,626,652.06
II. Tangible assets			
1. Land and buildings including buildings on third-party land	39,162,558.98	2,900,130.10	182,830,900.30
2. Technical systems and machines	81,329,210.09	3,864,866.43	484,600,682.11
3. Other equipment, fixtures and fittings	19,168,655.98	3,927,368.98	121,671,197.21
4. Advance payments and assets under construction	-141,402,772.61	0.00	128,516,804.21
	-1,742,347.56	10,692,365.51	917,619,583.83
III. Financial assets			
Shares in affiliated companies	0.00	290,725.85 2)	67,212.67
	0.00	11,015,253.46 2)	948,313,448.56

	Accumulated depreciation				
	1.1.2017	Currency differences	Accesses	Departures	December 31, 2017
	€	€	€	€	€
I. Intangible Assets					
IT software acquired against payment	25,195,376.80	-3,847.05	2,071,182.88	32,162.10	27,230,550.53
II. Tangible assets					
1. Land and buildings including buildings on third-party land	38,798,866.81	-37,539.23	5,555,484.40	2,502,857.56	41,813,954.42
2. Technical systems and machines	310,607,932.43	-464,997.32	26,910,874.37	3,853,724.14	333,200,085.34
3. Other equipment, fixtures and fittings	76,238,211.48	-474,345.57	11,558,741.48	3,882,906.98	83,439,700.41
4. Advance payments and assets under construction	0.00	0.00	0.00	0.00	0.00
	425,645,010.72	-976,882.12	44,025,100.25	10,239,488.68	458,453,740.17
III. Financial assets					
Shares in affiliated companies	0.00	0.00	0.00	0.00	0.00
	450,840,387.52	-980,729.17	46,096,283.13	10,271,650.78	485,684,290.70

	Book values	
	December 31, 2017	December 31, 2016
	€	
I. Intangible Assets		
IT software acquired against payment	3,396,101.53	3,402,663.31
II. Tangible assets		
1. Land and buildings including buildings on third-party land	141,016,945.88	104,286,622.10
2. Technical systems and machines	151,400,596.77	96,857,970.97
3. Other equipment, fixtures and fittings	38,231,496.80	26,922,380.31
4. Advance payments and assets under construction	128,516,804.21	137,265,226.05
	459,165,843.66	365,332,199.43
	Book values	
III. Financial assets	December 31, 2017	December 31, 2016
	€	€
Shares in affiliated companies	67,212.67	357,938.52
	462,629,157.86	369,092,801.26

1) Thereof change in the scope of consolidation € 237,092.47.

2) Thereof change in the scope of consolidation € 290,725.85.

Group management report for 2017

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, Japan and South Korea.

Business development and situation in 2017

2017 was particularly successful in the USA with regard to drug innovations. With 46 drugs, not only more than twice as many new active ingredients were approved by the FDA as in 2016, but also an absolute record number of new product launches. In Germany and the EU, 31 and 28 new drugs were approved, which is almost exactly the same as in the previous year. Around a third of all new registrations mentioned focus on cancer treatment and around 40% of the US new registrations are administered parenterally. In particular, the products marked by the FDA with the so-called "Break-Through Therapy" status are all injectables. The FDA's increasingly innovation-friendly course is also supported by Scott Gottlieb, the new head of the American licensing authority, who was appointed in 2017 and is committed to accelerated licensing procedures, among other things. At the same time, five biosimilars in the USA and nine biosimilars in Europe were approved or recommended for approval in 2017. However, since the patents for some of the original reference products (e.g. Humira) have not yet expired, some of these biological copycat products cannot yet be brought onto the market despite official approval. uses for accelerated approval procedures. At the same time, five biosimilars in the USA and nine biosimilars in Europe were approved or recommended for approval in 2017. However, since the patents for some of the original reference products (e.g. Humira) have not yet expired, some of these biological copycat products cannot yet be brought onto the market despite official approval. for accelerated approval procedures. At the same time, five biosimilars in the USA and nine biosimilars in Europe were approved or recommended for approval in 2017. However, since the patents for some of the original reference products (e.g. Humira) have not yet expired, some of these biological copycat products cannot yet be brought onto the market despite official approval.

Another research focus for pharmaceutical and biotech companies remains the rare diseases, which are treated with so-called "orphan drugs". In Germany around 30% and in the USA almost 40% of the new registrations in 2017 are drugs for the treatment of such diseases. Orphan drug sales are expected to almost double between 2016 and 2022.

The very good financing situation of small US biotech companies in 2017 is of great importance for the entire pharmaceutical industry, as these companies significantly advance pharmaceutical research and, due to the lack of their own production capacities, have it manufactured primarily on a contract basis. Venture capital financing was at a record level in 2017 and returns from IPOs in the biotech sector also rose. This explains the sharp decline in the number of company takeovers in the sector since 2014: Start-up companies have more capital available to continue drug development independently for as long as possible and thereby increase their company valuation.

There were eight M&A transactions among aseptic contract manufacturers in 2017, of which the takeover of Patheon by Thermo Fisher and Cook Pharmica by Catalent are the most significant. The acquisition of Cook Pharmica is a synergistic expansion of the value chain with additional capacities and target regions. Before acquiring Patheon, Thermo Fisher had no presence in the manufacturing of active pharmaceutical ingredients, so this acquisition should be viewed as an additive strategy.

Sales development

In an unchanged positive market environment, we were able to increase sales by 12% to € 562 million in the 2017 financial year. Our business areas grew equally dynamically in Commercial Manufacturing by 10.7% and Development Service by 17.8%. The renewed high increase in the Development Service area underpins our growth intentions, as the projects being processed there will generate future sales in the area of commercial manufacturing on the one hand, and on the other hand are evidence of the continuing trend towards specialized drugs. 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 2017. Despite this demanding environment, we were able to complete all regulatory inspections without any significant findings and subsequently position ourselves stronger in the competitive environment.

internationalization

After the successful establishment of new sales offices in Singapore (2014) and Japan (2015) as well as the acquisition of a purchase option for a plot of land in 2016 to expand our US activities, we took two more important steps on the way to internationalization in 2017. On the one hand, we were able to exercise the aforementioned purchase option at the US site in Des Plaines, Illinois, and thus finally acquire the property, which in future offers the possibility of setting up a commercial manufacturing unit in the most important individual market in the pharmaceutical industry. On the other hand, we opened another sales office in South Korea in November 2017 to consistently expand our activities in Asia.

Earnings situation

The earnings before interest and taxes of the Vetter Group declined slightly compared to the previous year against the background of the increased investment volume and the resulting higher depreciation on fixed assets, but it is clearly positive. Sales and earnings for the financial year are in line with the forecast. We therefore rate the overall development as still very satisfactory.

Financial position

As of December 31, 2017, the balance sheet total grew by 18% compared to the previous year to € 676.5 million. This growth is due in particular to our high level of investment activity and the associated expansion of fixed assets.

Liquidity / cash flow

The operating cash flow, which was once again higher than in 2016, was offset by higher cash flows from investments, which, as expected, resulted in a total of negative free cash flow. The main investment projects in the past financial year related to the expansion of our production capacities at the various locations in Ravensburg.

Financing structure

The equity of the Vetter Group in the financial year amounted to € 294.8 million. In the course of the expansion of the investment projects, the volume of liabilities to banks rose by around € 65 million to € 247 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 2017 with a remaining term until the end of March 2022, which is currently used at around 30%, 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 Vetter Development Service customer projects, we are constantly developing our innovative packaging systems and internal processes. The Vetter-Ject ® syringe closure system, which was developed internally, won the German Design Award Gold in 2017.

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 2017, 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 by continuously developing our pharmaceutical quality and risk management,

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 2018

The prospects for the development of the global pharmaceutical market remain positive, not least due to the elimination of the uncertainties that existed at the beginning of 2017 with regard to the restructuring of the American health care reform and the pressure on drug prices from US President Trump. With the focus on these two topics decreasing, the US tax reform being passed at the end of 2017, and increasing funding of medical progress by the FDA, the framework conditions for the development of innovative drugs remain favorable. The 2017 forecast for market growth in the pharmaceuticals industry expects average annual growth of 6.5% through 2022, which is mainly driven by new immuno-oncological cancer therapies, orphan drugs and drugs for the treatment of Alzheimer's. 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 in the next five years. The continuous focus on 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 2018:

In the area of drug innovations, development will continue to focus on biotechnologically manufactured drugs, so that their share of sales in the top 100 products is expected to increase from 49% in 2016 to 52% in 2022. Cancer therapies will generate the largest turnover in the future, followed by therapies for the treatment of diabetes, rheumatism and viral diseases.

It is still unclear to what extent the changes in US tax policy will lead to a revival of M&A activities and increased investments in the American pharmaceutical sector. However, it is undisputed that the big pharmaceutical companies have to make increasing efforts to strengthen their development pipeline, so that in 2018 there is still the possibility of a large transaction volume and megamergers.

The market for contract manufacturing will continue to grow in 2018, with innovation-driven aseptic CDMOs with a 6-8% annual increase in sales being expected to have better development opportunities than capacity-driven contract manufacturers, which are only expected to grow in the low single-digit range. Due to the trend towards small-volume special products, the unchecked investment of 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, the industry will remain under high competitive pressure.

Against this background, we expect further company growth in 2018 with an increase in sales and operating income in the single-digit percentage range.

Ravensburg, March 9, 2018

The Board