

Short Version

Annual report 2016

of the Galenica Group and Galenica Ltd.





January

Pharmacy network

In 2016, Galenica Santé extended clearly its pharmacy network by eleven new own pharmacies. At the end of 2016, it comprised around 500 own and partner pharmacies.



February

Medical technology range

Galexis' medical technology range "Focus", which is offered at euro-level prices, is expanded in 2016 with a comprehensive pharmacy range including vaccinations and the CardioTest®.



March

Coop Vitality pharmacies

The Association of the Swiss Self-Medication Industry presents the inaugural OTC Specialist Retail Partner Award. First place goes to Coop Vitality pharmacies.



April

Veltassa®

VFMCRP submits an EU marketing authorisation application for Veltassa® to treat high blood potassium levels.



May

Ferinject®

The 2016 heart failure guidelines of the European Society of Cardiology strongly recommend Ferinject® for the treatment of iron deficiency in patients with systolic heart failure.



June

A-Derma

Galenica Santé launches the dermo-cosmetics brand A-Derma from Pierre Fabre. A-Derma is available exclusively in all Amavita, Sun Store and Coop Vitality pharmacies.



July

Relypsa

A tender offer is submitted to Relypsa shareholders. The acquisition takes place in September; a further important step towards the division of the Galenica Group.



August

Galexis Niederbipp

Work on expanding the distribution centre in Niederbipp, creating space for an additional 6,100 items – which can be expanded to 11,000 items – is in full swing and will be completed by the end of 2016.



September

New partnerships

Vifor Pharma and VFMCRP enter into new partnerships, for instance with OPKO Health, ChemoCentryx and the Pfizer company Hospira.



October

15 years of Winconcept

Winconcept celebrates its 15th anniversary and thanks customers with various activities including a customer event in the Bern region at the beginning of October.



November

Veltassa®

The FDA approves a supplemental new drug application for Veltassa® removing the boxed warning regarding drug-drug interactions of Veltassa® and other oral medications.



December

Sales above CHF 1 billion

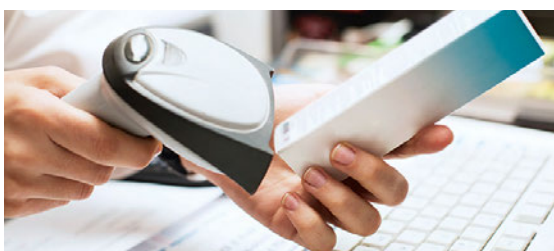
With sales up to CHF 1,167.0 million in 2016, Vifor Pharma exceeds for the first time the billion-franc threshold.



Better protection thanks to serialisation

Over a million people die every year as a result of counterfeit medications. Vifor Pharma is actively committed to protection against counterfeiting of medications and it successfully started serialising prescription medications in 2013.

36



Maximum safety when dispensing medication

Patient safety is the top priority for Galenica Santé pharmacies. The cornerstone is an outstanding quality management system, which supports employees in their day-to-day work.

58

Information regarding the Sustainability Report

Until 2014, the Galenica Group Sustainability Report formed part of the annual report, and for scheduling reasons was always based on provisional data that had been extrapolated as at 31 December.

Since 2015, the Sustainability Report has been published in the second quarter of the following year and includes the actual data as at 31 December. Accordingly, it no longer forms part of the annual report and will only be published on the website: www.galenica.com

There are, however, two coverages on selected sustainability topics in this annual report 2016.

Annual Report 2016

Galenica Group

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Financial Statements 2016

100	Galenica Group The full financial statements are available at www.galenica.com
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Key figures 2016

¹⁾ Key figures are reported for each Business unit not taking into account Corporate and eliminations

Net sales¹⁾

by Business unit
in million CHF



- Vifor Pharma CHF 1,167.0 million
- Galenica Santé CHF 3,008.9 million

Net sales

by region
in million CHF



- Switzerland CHF 3,079.8 million
- Americas CHF 574.4 million
- Europe CHF 334.9 million
- Other countries CHF 129.3 million

Number of employees

Galenica Group



- Galenica Ltd. 43
- Vifor Pharma 2,487
- Galenica Santé 6,131

EBITDA¹⁾

by Business unit
in million CHF



- Vifor Pharma CHF 330.9 million
- Galenica Santé CHF 177.8 million

EBIT¹⁾

by Business unit
in million CHF



- Vifor Pharma CHF 245.2 million
- Galenica Santé CHF 136.0 million

Net profit

Galenica Group
in million CHF

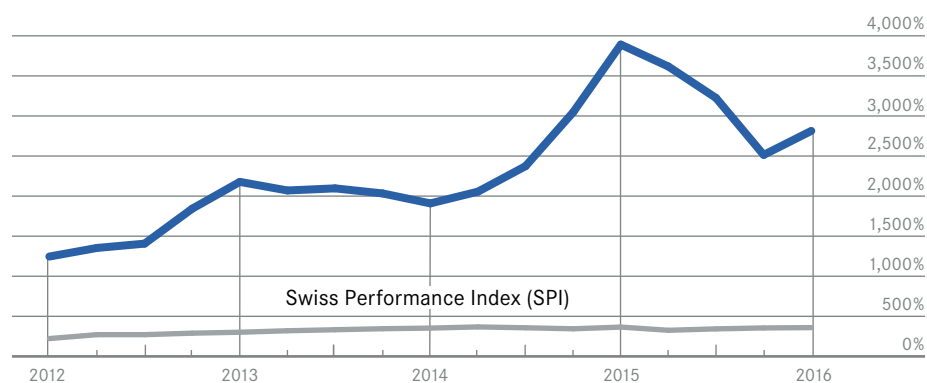


- Attributable to shareholders of Galenica Ltd. CHF 243.6 million
- Share of minority interests CHF 80.2 million

in million CHF	2016	2015	Change
Net sales	4,118.4	3,791.6	+8.6%
EBITDA	489.1	537.4	-9.0%
in % of net sales	11.9%	14.2%	
EBIT	361.5	450.8	-19.8%
in % of net sales	8.8%	11.9%	
Net profit	323.8	370.0	-12.5%
- Attributable to shareholders of Galenica Ltd.	243.6	301.1	-19.1%
- Share of minority interests	80.2	68.9	+16.2%
Investment in property, plant and equipment and intangible assets ¹⁾	304.6	368.6	-17.4%
Investment in R&D	127.1	88.8	+43.1%
Employees at reporting date (FTE)	7,107	6,421	+10.7%
Cash flow from operating activities	257.9	522.2	-50.6%
Total assets	5,431.5	3,640.0	+49.2%
Shareholders' equity	2,301.0	1,976.2	+16.4%
Equity ratio	42.4%	54.3%	
Net debt	1,733.5	159.1	
Gearing	75.3%	8.1%	

¹⁾ Including upfront and milestone payments from licensing agreements of CHF 218.6 million (previous year: CHF 290.4 million)

Share price performance in percent



+23% **+2,900%**

total shareholder return p.a. from 1995 (start of transformation strategy) to 2016

cumulative growth in the share price from 1995 (start of transformation strategy) to 2016

Share information

in CHF	2016	2015
Share price at reporting date	1,149.00	1,574.00
Highest share price for the year	1,585.00	1,617.00
Lowest share price for the year	956.50	696.00
Stock exchange capitalisation at reporting date in million CHF	7,442.1	10,194.6
Earnings per share ¹⁾	37.62	46.47
Earnings per share (excluding effects due to IAS 19) ¹⁾	39.68	47.67
Shareholders' equity per share ¹⁾	328.00	290.02
Gross dividend per share	20.00 ²⁾	18.00
Pay-out ratio ³⁾	53.2%	38.7%
Price-earnings ratio ⁴⁾	30.54	33.87

¹⁾ Attributable to the shareholders of Galenica Ltd.

²⁾ According to Board of Directors' proposal to Annual General Meeting on 11 May 2017

³⁾ Gross dividend in % of earnings per share

⁴⁾ Share price exchange rate at reporting date in relation to earnings per share

20.00

gross dividend per share in CHF

53.2%

pay-out ratio

37.62

earnings per share in CHF

We are ready!



Etienne Jornod
Executive Chairman

Dear Shareholders, Ladies and Gentlemen,

2016 marks a critical new phase in the development of the Galenica Group, with the 21st successive increase in profit in 21 years, excluding the significant impact of the Relypsa acquisition. All activities grew more rapidly than their respective markets.

Major challenges emerged during the course of the year:

- Needing to strengthen Vifor Pharma management,
- Finding the right replacement for the reference shareholder Sprint (25.5% of share capital),
- Acquiring American company Relypsa, giving Vifor Pharma a real global scale, with a presence and products in the USA,
- And finally, optimising the market coverage of Galenica Santé by acquiring physicians wholesaler Pharmapool.

These challenges were met to our great satisfaction, once again demonstrating the entrepreneurial spirit and effectiveness of which the entire Galenica Group is capable. The Group is now ready to transform itself into two independent listed companies, each with its own strategy, projects, competences and strengths, as illustrated in the following short profiles:

+13.5%

profit growth before deduction of minority interests (on a comparable basis, without negative influence of Relypsa and IAS 19)

+2,900%

cumulative growth in the share price from 1995 (start of the transformation strategy) to 2016

Vifor Pharma

The global leader in iron therapies has built itself a first-rate portfolio of products and projects:

- Products and areas each with growth potential of more than one billion Swiss francs over several years:
 - Ferinject®/Injectafer® has already exceeded CHF 500 million (+44%) in annual sales (IMS)
 - Veltassa®
 - Vifor Fresenius Medical Care Renal Pharma with its products Mircera®, Retacrit™, Velphoro®, etc.
- Highly attractive projects with patents due to expire in 2028/34 or later:
 - CCX168 and
 - CCX140, two licences from US company ChemoCentryx
 - RAYALDEE® from American company Opko Health
- A range of well-known products that are proven leaders in their respective areas: Venofer®, Maltofer®, Uro-Vaxom®, Broncho-Vaxom®, Doxium®, etc.

Galenica Santé

Health partner par excellence in the Swiss market, Galenica Santé is a leader in all its activities:

- Products & Brands: in the areas of OTC medications and healthcare products;
- Retail: by the number of points of sale in all regions of Switzerland, and
- Services: thanks to the highest performing technologies and investments.

A targeted market approach, consolidated year after year for more than two decades, has enabled Galenica Santé to work in harmony and to create synergies with different players and customers, for each of whom it is also number one, for example:

- pharmacists, doctors, druggists;
- pharmaceutical industry, hospitals, nursing homes;
- consumers and patients through access and supply in its own pharmacy networks, postal consignment or home nursing.

The two companies also set themselves apart by their capacity to generate added value through their specific business models and collaborations with leaders in their respective sectors, such as Vifor Pharma with Fresenius Medical Care and Galenica Santé with Coop.

With their distinct identities, Galenica Santé and Vifor Pharma address shareholders who expect differentiated, high-quality performances, namely continued development with an attractive dividend policy as well as strong growth and a high margin.

These companies have been created by first-rate managers and teams, whom I would like to thank for their exceptional commitment on behalf of both the Board of Directors and you, as a shareholder. I believe that you will allow me to take the liberty to do so.

Bern, 14 March 2017



Etienne Jornod
Executive Chairman

2016 in brief

Report on the operational and financial situation



Galenica Group

Highlights of 2016

Preparations for the planned **division of the Group** continued in 2016. Their performances in 2016 and newly concluded agreements further strengthened both the Vifor Pharma and Galenica Santé Business units. Both are ready to successfully grow as independent companies in the future.

Vifor Pharma exceeded the billion-franc sales mark for the first time in 2016. With the acquisition of the US pharma company Relypsa, a significant investment has been made in intensifying Vifor Pharma's global business. As a result of the acquisition, Vifor Pharma can now build on a fully integrated commercial organisation in the key US cardio-renal market by leveraging its extensive and growing specialty portfolio.

Galenica Santé grew further thanks to innovations and new customers. All Business sectors contributed to the successful performance, for example with the expansion of the pharmacy network, innovative new offerings and by gaining new customers.

In 2016, the **Galenica Group** realised consolidated net sales of CHF 4,118.4 million (+8.6%).

The acquisition of US company Relypsa had a negative impact on the Group's results, and consequently they declined. Consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) fell by 9.0% to CHF 489.1 million, earnings before interest and taxes (EBIT) by 19.8% to CHF 361.5 million, and net profit by 12.5% to CHF 323.8 million before deduction of minority interests, and by 19.1% to CHF 243.6 million after deduction of minority interests. The acquisition of Relypsa mentioned reduced EBITDA by CHF 103.4 million, EBIT by CHF 129.4 million and net profit before and after deduction of minority interests by CHF 91.6 million.

On a comparable basis, excluding the negative effects due to IAS 19 and the acquisition of Relypsa, EBITDA was up by 11.4%, EBIT by 10.2%, net profit before deduction of minority interests by 13.5% and net profit after deduction of minority interests by 12.9%. IAS 19 reduced 2016

EBITDA and EBIT by CHF 16.0 million and net profit before and after deduction of minority interests by CHF 13.4 million. The effects of IAS 19 only impacted the consolidated earnings of the Group, and not the earnings of the Business sectors.

Galenica continued to invest in research and development, with CHF 127.1 million (previous year: CHF 88.8 million). Investments in property, plant and equipment and intangible assets totalled CHF 304.6 million (previous year: CHF 368.6 million).

Outlook for 2017

Within the framework of examining different variants as to how the division of the Galenica Group could take place, the focus of the current preparatory work is on the flotation of Galenica Santé by means of an initial public offering (IPO). Galenica continues to anticipate that the division of the Group will be completed by no later than the end of 2017, subject to the economic environment remaining stable.

Business units

Vifor Pharma

Galenica Santé

Business sectors

- Products & Brands
- Retail
- Services

Key figures 2016

- Net sales: CHF 4,118.4 million
- EBITDA: CHF 489.1 million
- EBIT: CHF 361.5 million
- Net profit: CHF 323.8 million
- Employees: 8,661
(7,107 full-time equivalents)

One-time effects 2016

in million CHF	Galenica Group		Impact Relypsa	Impact IAS 19	Galenica Group ¹⁾ excl. Relypsa and IAS 19	
EBITDA	489.1	-9.0%	-103.4	-16.0	608.5	+11.4%
EBIT	361.5	-19.8%	-129.4	-16.0	506.9	+10.2%
Net profit						
- before deduction of minority interests	323.8	-12.5%	-91.6	-13.4	428.8	+13.5%
- after deduction of minority interests	243.6	-19.1%	-91.6	-13.4	348.6	+12.9%

¹⁾ On comparable basis

Business unit

Vifor Pharma



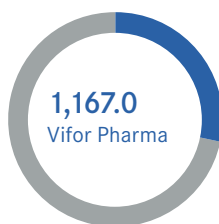
Vifor Pharma

Key figures 2016

- Net sales: CHF 1,167.0 million
- EBITDA: CHF 330.9 million
- EBIT: CHF 245.2 million
- ROS: 21.0 %
- Investments: CHF 269.6 million
- Employees: 2,487
(2,410 full-time equivalents)

Net sales

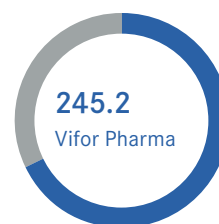
in million CHF



Galenica Group CHF 4,118.4 million

EBIT

in million CHF



Galenica Group CHF 361.5 million

Becoming an independent, global specialty pharmaceutical company

Vifor Pharma is an international specialty pharma company that researches, develops, produces and markets its own pharmaceutical products. The company has three main areas of focus: iron deficiency with and without anaemia, nephrology – in partnership with Vifor Fresenius Medical Care Renal Pharma – and following the licensing of patiomer (US brand name: Veltassa®) in 2015 and subsequently the acquisition of Relypsa in 2016, also cardio-renal therapies.

Activity

With its iron replacement products Ferinject®/ Injectafer®, Venofer® and Maltofer®, Vifor Pharma is a global leader in the treatment of iron deficiency, a widespread ailment around the world. The product portfolio is completed by Velphoro®, a drug developed by Vifor Pharma, to effectively control phosphorus levels in the blood for patients with chronic kidney disease on dialysis. During 2016, Relypsa – a US-based biopharmaceutical company focused on the discovery, development and commercialisation of polymeric medicines for patients with often overlooked and undertreated conditions that can be addressed in the gastrointestinal tract – became a Vifor Pharma company. Relypsa's first product is Veltassa® for the treatment of hyperkalaemia. It is the

39.3 %

sales increase of Ferinject®/ Injectafer®

first new medicine in more than 50 years for patients with elevated serum potassium. To gain rapid and direct access to international markets, Vifor Pharma works through its own sales affiliates as well as with partners. The immuno-stimulant products Broncho-Vaxom® and Uro-Vaxom® supplement the portfolio of Vifor Pharma and offer potential for expansion.

Highlights of 2016

- Vifor Pharma reinforced its global leadership in iron deficiency and simultaneously ensured market expansion.
- The US biopharmaceutical company Relypsa was acquired and integrated into Vifor Pharma, further strengthening Vifor Pharma's product portfolio by obtaining global rights to Veltassa® (US brand name), a potassium binder for the treatment of hyperkalaemia.
- Vifor Fresenius Medical Care Renal Pharma (VFMCRP), our common company with Fresenius Medical Care, reinforced its position as a leading player in nephrology.

Outlook for 2017

- Establish Vifor Pharma as an independent, global specialty pharmaceutical company following the IPO of Galenica Santé.
- Enhance Vifor Pharma's global footprint while remaining true to its Swiss roots.
- Continue to increase the confidence of private and institutional shareholders.
- Expand the iron market, especially in the USA, by further increasing awareness around iron deficiency.
- Reinforce VFMCRP's position as a leading player in nephrology in close cooperation with our partner Fresenius Medical Care.
- Combine commercial assets and best-in-class cardio-renal products of Vifor Pharma, Relypsa and VFMCRP to become a major player.

Companies

- Vifor Pharma Ltd., www.viforpharma.com
- Vifor Fresenius Medical Care Renal Pharma Ltd.
- Relypsa Inc., www.relypsa.com
- OM Pharma SA, www.viforpharma.com

The full version of the Business unit Vifor Pharma report is available at www.galenica.com.

Activities of Vifor Pharma

Iron deficiency therapies

- Focus on iron deficiency with or without anaemia.
- Key products: Ferinject®/Injectafer®, Venofer® and Maltofer®.
- Therapeutic areas: haemodialysis, non-dialysis chronic kidney disease (ND-CKD), cardiology, gastroenterology, oncology, obstetrics, gynaecology, patient blood management, women's health and paediatrics.
- Comprehensive clinical and scientific development programme in place.

Nephrology/VFMCRP

- Strategic partnership between Galenica/Vifor Pharma and Fresenius Medical Care.
- Key products: Velphoro®, a non-calcium, iron-based phosphate binder to improve control of serum phosphorus levels in adult patients with chronic kidney disease (CKD) on dialysis; Venofer® and Ferinject®/Injectafer® in the field of pre-dialysis and dialysis in CKD patients, as well as Mircera® for the treatment of symptomatic anaemia of CKD patients.

Cardio-renal therapies / Relypsa

- In 2016, the US company Relypsa was acquired and integrated into Vifor Pharma, further strengthening the product portfolio by obtaining global rights to Veltassa®. With the combination of the commercial assets and cardio-renal products of Vifor Pharma, Relypsa and VFMCRP, the company is positioned to become a major player in this area.
- Key product: Veltassa®, an oral potassium binder for the treatment of hyperkalaemia. Veltassa® has been approved by the FDA in 2015. The EU Marketing Authorisation is expected in 2017.

Infectious Diseases/OTX

- Includes products for ear care, abdominal distension, chronic obstructive pulmonary disease, respiratory tract infections, lower urinary tract infections, chronic venous insufficiency, diabetic retinopathy, haemorrhoids, menometrorrhagia or heavy menstrual bleeding.
- Key products: Broncho-Vaxom®, Uro-Vaxom®, Doxium®, Dicynone®, Otalgan® and Aero-OM®.



Business unit

Galenica Santé

Segment

Health & Beauty

Products & Brands and Retail Business sectors

Segment Health & Beauty

Key figures 2016

- Net sales: CHF 1,437.0 million
- EBITDA: CHF 118.7 million
- EBIT: CHF 96.2 million
- ROS: 6.7%
- Investments: CHF 14.9 million
- Employees: 4,637
(3,423 full-time equivalents)
- Of which:
 - Products & Brands: 107
(93 full-time equivalents)
 - Retail: 4,530
(3,330 full-time equivalents)

Net sales

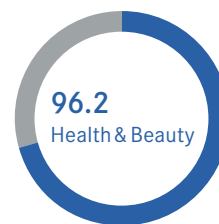
in million CHF



Galenica Santé CHF 3,008.9 million

EBIT

in million CHF



Galenica Santé CHF 136.0 million

Health, beauty and wellbeing

Galenica Santé has the largest pharmacy network in Switzerland, giving it an excellent distribution network both for strong own brands as well as the products of its business partners. In terms of strategy, it aims to strengthen its leading position in pain relief, coughs, colds and respiratory diseases, and expand the cosmetics and

beauty market segments. Net sales in the Health & Beauty segment, comprising the Products & Brands and Retail Business sectors, rose by 3.1% to CHF 1,437.0 million in 2016. EBIT improved by 7.2% to CHF 96.2 million. Compared to the previous year, return on sales (ROS) increased to 6.7%. Investments totalled CHF 14.9 million in 2016 (previous year: CHF 17.7 million).

+7.2%

EBIT growth

Products & Brands

Strategy

With the largest pharmacy network in Switzerland, Galenica Santé offers unparalleled potential for selling strong brands. About 500 optimally located own pharmacies, Coop Vitality pharmacies as well as Amavita and Winconcept partner pharmacies serve over 100,000 customers daily, providing a unique and attractive distribution structure for third-party brands. The aim of the Products&Brands Business sector, with its current leading position in pain, coughs, colds and respiratory diseases, is to better exploit this potential by getting closer to consumers and developing compelling insights on which to build a differentiated experience.

Activity

The Products&Brands Business sector, through its company Vifor Consumer Health, has a portfolio of strong brands such as Perskindol®, Anti-Brumm®, Algifor® and Trioфан®. The Business sector also launches and distributes pharmaceutical and para-pharmaceutical products as a service provider for own brands and commercial products.

Highlights of 2016

In Switzerland, Vifor Consumer Health clearly outperformed the overall growth of the stable market (IMS Health 2016).

In the period under review, Vifor Consumer Health was again successful in expanding its product range by signing agreements with established consumer brand companies, taking over the exclusive distribution of A-Derma products by the French dermo-cosmetics company Pierre Fabre. Their products have been very well received by the customers. Another contract was signed with the French Alès Group; the exclusive distribution in Switzerland by Galenica for their skincare brand Lierac and their haircare brand Phyto started in early 2017.

Algifor®, Swiss market leader in the pain relief category, outperformed the market in the period under review, and the new Algifor® Liquid capsules 400 mg Ibuprofen launch was well received by the market. Sales of the market-leading insect repellent Anti-Brumm® grew significantly in both national and international markets, reinforcing its prime position in Germany.

Outlook for 2017

The Swiss consumer health and self-medication market is expected to develop positively.

Products&Brands intends to continue with the strategy that has already proven its success: strengthen the health franchise in the Swiss OTC healthcare market; launch products with new partnerships, particularly with cosmetics and beauty products; and stimulate export sales with selected products.

The introduction of new products will support growth of existing brands as well as strengthening the portfolio in new categories.

Companies

- Vifor Consumer Health Ltd.,
www.viforconsumerhealth.ch
- G-Pharma AG

Key figures 2016

- Net sales: CHF 89.3 million
- Employees: 107 (93 full-time equivalents)

The full version of the Products & Brands Business sector report is available at www.galenica.com.

Over
60

product brands in the Vifor Consumer Health portfolio

The companies of the Products & Brands Business sector

Vifor Consumer Health

- Markets non-prescription drugs (over-the-counter products) developed by Vifor Consumer Health, sold under licence or distributed for third parties.
- Plays a leading role in its home market Switzerland with key brands such as Algifor®, Trioфан®, Perskindol® and Anti-Brumm®.

G-Pharma

- Launch and distribution of Consumer Health-care products for Retail own brands.

Retail

Strategy: lean and flexible organisation

The Retail Business sector manages the largest Swiss pharmacy network. It aims to play an active role in shaping the future of the rapidly changing Swiss pharmaceutical market by focusing on developing, promoting and managing strong pharmacy networks. With its different pharmacy formats, Retail is one of the most important partners for the various players in the healthcare market. New offerings, such as flu vaccinations given in the pharmacy without a prescription, confirm the high degree of focus on customer service.

Activity

The pharmacy network of the Retail Business sector is the largest in Switzerland, with 329 Group-owned stores and 167 partner pharmacies at 31 December 2016. The network comprises the **Amavita** and **Sun Store** pharmacies, which are managed directly by Retail, the Amavita partner pharmacies, which are integrated under a franchise concept, as well as the **Coop Vitality** pharmacies, which are operated as a joint venture with Coop. The **MediService** specialty pharmacy focuses specifically on home healthcare for people with chronic illnesses. The brand name Feelgood's includes independent pharmacies for which the company **Winconcept** offers services and marketing concepts.

Highlights of 2016

With all Sun Store pharmacies having switched to directly invoicing health insurers in the previous year, Amavita pharmacies followed in 2016. Thanks to the TriaFact® platform and direct exchange between pharmacies and health insurers, the costs of processing invoices were reduced and data quality improved.

The online platform Siroop was added to the electronic offering. Health and beauty products are available to customers at any time in the Sun Store, Amavita and Coop Vitality webshops.

Information on special offers and health tips can be accessed on the go using the Amavita app.

A further step towards eHealth was achieved in the form of the Prescription Upload pilot project at a Sun Store location in Lausanne. This allows customers to upload a scanned prescription to a platform and send it to the pharmacy of their choice electronically. The pharmacy receives the prescription by e-mail and can then prepare the medication, allowing waiting time to be kept to a minimum when it is collected. The service is currently offered at all Sun Store, Coop Vitality and Amavita pharmacies.

Nearly
500

own and partner pharmacies make up the Retail pharmacy network

In October 2016, the Federal Council published a report that, for the first time, would make it possible for pharmacies, and not just general practitioners, to provide people with “simple and low-threshold access” to medical services. Pharmacies should also play a key role in preventative healthcare and the treatment of chronic diseases. While the recognition of pharmacies as the first point of contact for minor complaints is to be welcomed, further developments and decisions are still pending. Demand from independent pharmacies for Process-one remained high. This quality management system assists them in their planning without generating an excessive administrative burden.

Outlook: Growth both organically and through increased efficiency

The Retail Business sector continues to pursue its established strategy. Growth is to be achieved both organically, for example with new offerings and services, and through targeted acquisitions and new openings. Efficiency will also be improved by simplifying and harmonising processes, the systematic introduction of the pharmacy software TriaPharm® being one example of this. Standardised platforms make cooperation easier in the shared back office of the pharmacy formats, thereby creating added value for all. Appropriate measures also support efforts to maintain room for manoeuvre as regards future price reduction measures.

Companies and pharmacy formats

- GaleniCare Management Ltd., www.galenicare.com
- Amavita Apotheken, www.amavita.com
- Sun Store SA, www.sunstore.ch
- MediService Ltd., www.mediservice.ch
- Winconcept Ltd., www.winconcept.ch
- Coop Vitality AG¹⁾, www.coopvitality.ch

¹⁾ Consolidated at equity level

Key figures 2016

- Net sales: CHF 1,348.6 million
- Employees: 4,530
(3,330 full-time equivalents)

The full version of the Retail Business sector report is available at www.galenica.com.

The pharmacy formats of the Retail Business sector

Amavita

- Largest pharmacy network in Switzerland.
- Founded and managed by GaleniCare.
- Product focus: prescription and non-prescription medicines and beauty products.
- Points of sale in attractive public locations.
- Strong customer focus (employee training, services, own-label brands).

Sun Store

- First pharmacy chain in Switzerland, has belonged to Galenica since 2009 and is managed by GaleniCare.
- Product focus: non-prescription medicines, beauty, wellness and health.
- Larger-than-average retail space in places with high customer traffic such as shopping centres.

Coop Vitality

- Joint venture between Coop and Galenica.
- Located in larger Coop centres.
- Comprehensive range in the fields of health, prevention and beauty combined with professional advice and services.

MediService

- Specialty pharmacy for care of patients with chronic illnesses.
- Home and Pharma Care therapy support service for in-home care of long-term patients, including specialist care and direct delivery of medications.

Winconcept

- Service provider for autonomous and independent pharmacies.
- Marketed under the Feelgood's brand.
- Management and marketing concepts for members focusing on communication and quality.

Business unit

Galenica Santé

Segment

Services

Services Business sector



Segment Services

Key figures 2016

- Net sales: CHF 2,328.9 million
- EBITDA: CHF 61.7 million
- EBIT: CHF 41.4 million
- ROS: 1.8%
- Investments: CHF 20.2 million
- Employees: 1,494
(1,234 full-time equivalents)

Net sales

in million CHF



Galenica Santé CHF 3,008.9 million

EBIT

in million CHF



Galenica Santé CHF 136.0 million

Dynamic sales growth

The Services segment made gains in both business volume and profitability in 2016. Net sales increased by 3.8% to CHF 2,328.9 million and earnings before interest and taxes (EBIT) rose disproportionately by 11.7% to CHF 41.4 million. Return on sales (ROS) could therefore be further increased to 1.8%. A milder flu season than last year was more than offset by gaining new customers and continuing range expansion,

particularly in the cosmetics market. Increasing regulation, such as the now binding EU GDP Guidelines for Good Distribution Practice of Medicinal Products for Human Use, demands comprehensive solutions, which the Services segment is well-equipped to provide. Investments totalled CHF 20.2 million (previous year: CHF 26.9 million), and related, among others, to the final construction phase of the Niederbipp distribution centre expansion.

CHF

20.2 million

in investments, among others for the extension of the Niederbipp site

Services

Strategy: tailored solutions

The Services Business sector plays an important role in the Swiss pharmaceutical supply chain and provides countrywide integrated healthcare logistics services with proven modular solutions that support customers' success. The strategy centres on strengthening market position and working in close cooperation with all market participants, with a focus on maintaining a high level of availability and systematically leveraging synergies. Storing, despatching and providing products from across the entire health market, incorporating necessary master data and content using HCI Solutions instruments – these are the integrated solutions of the future.

Activity

Alloga offers a broad range of specialised logistics services (prewholesale) to pharmaceutical and healthcare companies.

As the leading pharmaceutical wholesalers in Switzerland, **Galexis** and **Unione Farmaceutica Distribuzione** ensure provision to all healthcare partners throughout the country. The companies supply pharmacies, physicians, drugstores and hospitals with over 80,000 referenced healthcare products.

Medifilm prepares medicines and food supplements individually on behalf of pharmacies according to the treatment plan for permanent and long-term patients (blister packaging).

HCI Solutions develops management solutions for pharmacies as well as tools to securely manage, communicate and distribute sensitive health data.

Highlights of 2016

Galexis has completed the expansion of the distribution centre in Niederbipp, initially creating storage space for an additional 6,100 items, which can be expanded to 11,000 items. In addition, the hourly throughput rate increased by more than 30% to 4,000 containers.

In May 2016, Galenica submitted a takeover bid to the shareholders of the physician wholesaler Pharmapool. By the acceptance deadline at the end of August 2016, 100% of the shareholders of Pharmapool AG had accepted the purchase offer from Galexis, with the Competition Commission (COMCO) approving the acquisition without conditions or requirements at the end of December 2016. The acquisition of Pharmapool was thus completed at the beginning of January 2017 and will strengthen the logistics business of Galenica Santé.

Unione Farmaceutica Distribuzione (UFD) performed well in its home market of Ticino in 2016, while its webshop specialisation for third-party customers, offered throughout Switzerland, also bore fruit.

Alloga developed a solution for postal deliveries in collaboration with a logistics partner. As a result, Alloga ensures GDP conformity across all its sales channels.

Medifilm expanded its capacity at the existing site and is now able to serve up to 30,000 patients across Switzerland. The existing Mediproce software platform has been equipped for direct connection to nursing homes.

By introducing direct invoicing to health insurers, HCI Solutions has, at minimal cost, enhanced the billing process quality of pharmacies working with TriaPharm®. In addition, digital vaccination records have been integrated into the TriaMed® and TriaPharm® systems. In December 2016, the rights to TriaMed® practice software were sold to Swisscom Health. HCI Solutions will thereby focus on information logistics, knowledge databases and developing software tools.

Outlook for 2017

As of 2017, a key priority will be replacement of the current Alloga and Galexis ERP (Enterprise Resource Planning) systems. The software provider has been selected and the next stage is the implementation at Alloga.

Galexis intends to use the expanded logistics platform to extend its offering, for example with the Switzerland-wide exclusive distribution of cosmetics, additional medical technology products for pharmacies and new ranges in the areas of homeopathy and chemicals.

Alloga intends to invest in the building infrastructure on the Burgdorf site. The cold room is due to be expanded and linked directly to incoming goods and dispatch via “direct docking”.

Companies

- Alloga Ltd., www.alloga.ch
- Galexis Ltd., www.galexis.ch
- Unione Farmaceutica Distribuzione SA, www.unione.ch
- Medifilm Ltd., www.medifilm.ch
- HCI Solutions Ltd., www.hcisolutions.ch

The full version of the Services Business sector report is available at www.galenica.com.

The companies of the Services Business sector

Galexis	Unione Farmaceutica Distribuzione	Alloga	Medifilm	HCI Solutions
<ul style="list-style-type: none"> - Market leader in Swiss healthcare logistics. - Distribution centres in Niederbipp and Lausanne-Ecublens. - Comprehensive product and service offerings. - Supplies pharmacies, medical practices, drugstores, nursing homes and hospitals. 	<ul style="list-style-type: none"> - Leading pharmaceutical wholesaler and the only full-range supplier in Ticino. - Distribution centre in Barbengo-Lugano with strong regional roots. - Supplies pharmacies, drugstores, nursing homes and hospitals. 	<ul style="list-style-type: none"> - Largest Swiss pre-wholesaler. - Logistics centre in Burgdorf. - Modular, process-managed full-service offering along the entire supply chain. - Logistics services in partnership with the pharmaceutical and healthcare industry. 	<ul style="list-style-type: none"> - Swiss pioneer in the area of blister packaging of drugs for individual patients with wholesaling and manufacturing licence. - Customers include pharmacies and nursing homes supplied with pharmaceuticals. 	<ul style="list-style-type: none"> - TriaMed^{®1)} and TriaPharm[®] comprehensive database. - Develops management solutions for pharmacies as well as tools to securely manage, communicate and distribute sensitive health data.

¹⁾ Rights sold to Swisscom Health at the end of 2016



Alloga is one of the leading logistics service providers in the Swiss healthcare market. This is based on a modular, process-managed full-service offering along the entire supply chain.

Vision, Mission, Values and Strategy



Our vision

Thanks to our excellence in the healthcare market, with our activities we are a leading healthcare partner.

As a Group, we represent a diversified healthcare company with two Business units: Vifor Pharma, with international pharma activities, and Galenica Santé, providing services mainly to the Swiss healthcare market.

Both Business units operate independently and are successful and solid with a profitable track record. They develop in a focused and successful way, sustainably and with the vision to become two independent listed companies.

Our mission

Galenica Group: In our day-to-day work, we are passionately committed to the welfare of patients and the needs of our customers. It is our way of creating added value and benefits for customers, patients, employees, shareholders and partners in the long-term.

Vifor Pharma: We strive for excellence in our fields of expertise: with our leading iron therapies and other pharma specialties, we are noticeably improving patients' quality of life right across the world and enabling service providers in the healthcare industry to prevent and treat illnesses as effectively as possible.

Galenica Santé: We want to be the first choice for health, beauty and wellbeing. That is our ambition. We are a dynamic company that helps to shape the Swiss healthcare market of the future through innovation, is a reliable, attractive partner and employer, and aims at generating reliable, attractive returns with manageable risks.

Our key values

Our five key values are the reference point for our actions and shape our conduct and decision-making each day. They therefore play an essential part in the implementation of the strategy and objectives and are a crucial element to our success.

One Group, two strategies

Following the Galenica Group's consistent and successful implementation of its transformation strategy since 1995, the Board of Directors concluded that the Group was ready to prepare a new phase. In August 2014, a new management structure with two CEOs was introduced to enable the different business models of Vifor Pharma and Galenica Santé to evolve in an even more focused way, taking into account their individual growth dynamics. The management structure was adjusted accordingly and organisational changes implemented.

Two independent listed companies

In May 2016, the Board of Directors concluded that the preconditions for dividing the Group in 2017 had been met, provided the economic environment remains stable. Thereby, the Board of Directors initiated essential steps to create optimum conditions for the Vifor Pharma and Galenica Santé Business units to be able to continue to develop in a focused and sustainable way.

Vifor Pharma

Galenica has successfully expanded its pharma business in recent years and made significant investments to create a strong organisation. Thanks to an innovative proprietary product portfolio, an international commercial network comprising its own affiliates and partnerships, and first-class pharma expertise, Vifor Pharma is a global market leader in iron deficiency and has strong market positions in nephrology and products that stimulate the cardio-renal therapies.

The five key values of Galenica

We participate with **passion** and act as **entrepreneurs**.

We build **trust** through credibility and competence.

We show **respect** and know that **together, we are stronger**.

Retrospect

From a pharmaceutical logistics provider to an international healthcare company

Galenica was founded in 1927 by 16 Swiss French-speaking pharmacists who came together to create a central purchasing group. In 1938, Galenica laid the foundation for its current information management business by developing a scientific documentation service. From 1957 onwards, Galenica diversified beyond its existing distribution activities.

In 1995, in response to the rapid and fundamental changes in market conditions, the Group's management developed a new strategy based on the vision of turning Galenica into a healthcare player that is engaged in the entire value chain in Switzerland.

Thus in 1996, Galenica expanded its distribution activities to all players in the Swiss market (pharmacists, as well as self-dispensing physicians, drugstores and hospitals), set up eHealth companies and laid the foundation for its pharmacy chains with the creation of GaleniCare in 2000.

At the same time, the Group focused on niches at the industrial level and began to expand internationally in the field of iron replacement products. These products were fundamentally redesigned and repositioned by the research & development team, becoming the trusted brands Venofer® and Maltofer®. They were joined by Ferinject®/Injectafer®, which was launched at the end of 2007, as well as other products including the novel phosphate binder Velphoro®. The acquisition of the Canadian pharmaceutical company Aspreva Pharmaceuticals in 2008 and of OM Pharma in 2009, together with the development of its own distribution network, led to the creation of what is today an international specialty pharma company, Vifor Pharma, with a broad range of products.

In 2010, Galenica and Fresenius Medical Care founded the common company Vifor Fresenius Medical Care Renal Pharma (VFMCRP), a rapidly-growing international business that focuses on nephrology. The company works in partnership with specialist clinics, healthcare professionals, payors and patients to offer them the most comprehensive portfolio of nephrology products.

In 2014, Galenica laid the foundation for the creation of two independent listed companies: Galenica Santé and Vifor Pharma. Since then, Vifor Pharma has focused on preparing the organisation for independence by expanding its leadership in iron deficiency. The company has also identified non-organic growth opportunities in related areas, signing exclusive licensing agreements with a range of highly regarded partners. In September 2016, Vifor Pharma acquired Relypsa, a biopharmaceutical company focused on the discovery, development and commercialisation of polymeric medicines. Through this acquisition, Vifor Pharma gained a fully-integrated commercial organisation in the USA. With the combination of the commercial assets and best-in-class cardio-renal products of Vifor Pharma, Relypsa and VFMCRP, Vifor Pharma is positioned to become a major player on the US market in its core therapy areas, leveraging its growing specialty portfolio – an important step towards becoming an independent, global specialty pharmaceutical company.

In recent years the focus has been on the development and international registration of the intravenous iron replacement product Ferinject® (Injectafer® in the USA) and the new phosphate binder Velphoro®. Ferinject® has been launched in more than 70 countries, including in the USA in mid-2013 under the name Injectafer®. Velphoro® was launched in the USA in March 2014 and received EU regulatory approval in August 2014. It is currently marketed in more than 20 countries. With the acquisition of Relypsa, Vifor Pharma gained full global rights to Veltassa®, an important new treatment for patients with hyperkalaemia. Vifor Pharma has continued to expand its product portfolio through licensing agreements with leading companies including Roche, Pfizer, Opko Health and Chemo-Centrix.

Objective: building an independent, global specialty pharmaceutical company

With its recent robust performance and progress, Vifor Pharma is poised to become a successful stand-alone specialty pharmaceutical company, characterised by an entrepreneurial culture and a clear strategy. Its unique business model combines pharmaceutical expertise with innovative partnerships and direct access to patients.

Vifor Pharma is working to deliver the full potential of the key growth drivers Ferinject®/Injectafer® and Velphoro® at the same time as building a competitive, focused and agile organisation. Organic growth has been reinforced by in-licensing new products and acquiring Relypsa. It is ideally placed to maximise its growth and future opportunities.

Galenica Santé

To date, Galenica Santé has held the role of a stable pillar, supporting the development of the pharma business. Galenica Santé has everything it takes to become an independent listed company and aims to play an even more active and dynamic role in the market in order to ensure its long-term development. With this in mind, the organisational and management structure was adapted as of 1 September 2015.

Galenica Santé strategy:

Galenica Santé has a unique network in the Swiss healthcare market. Based on this,

- we manage the largest network of pharmacies in Switzerland and systematically make use of these for the best offerings;
- we develop and launch new and innovative brands, products and services in the Swiss market;
- we consistently utilise the synergies from all of our activities;
- we enter into and maintain partnerships with various market players and thereby make a considerable contribution to a well-functioning healthcare system.

On the basis of the Galenica Santé strategy, the Retail, Products & Brands and Services Business sectors assume the following roles:

Retail: largest pharmacy network with the best offerings

Retail offers a unique range of products and services in Switzerland's largest network of locally established pharmacies, as well as online.

In the local pharmacy, advice, trust and competence come first, supported by the ability to anticipate trends with innovations.

Retail systematically utilises potential synergies and orients both systems and processes consistently towards quality and efficiency. Doing so creates added value for the company, customers and partners.

Products & Brands: own and partner brands and products

Products & Brands is a significant growth driver for Galenica Santé.

Products & Brands develops and launches own and partner brands and products for the entire specialist retail trade in Switzerland.

This is supported with a unique sales organisation comprising specialists in purchasing, customer advice and sales promotion as well as highly qualified experts who carry out individual customer-specific training sessions.

Services: best possible use of synergies

As a leading partner of all participants in the Swiss healthcare market, Services provides support with integrated logistic and IT solutions from a single source.

Through its unique know-how, Services consolidates its leading market position and cost leadership thanks to high-quality services and innovative offerings.

Objective: building on current strengths in a targeted manner

By developing and exploiting the promising synergies between these three Business sectors, Galenica Santé will be able to respond to the challenges facing the healthcare sector and continue on its successful growth trajectory.

The history of pharmacy

Pharmacy is an interdisciplinary science that deals with the nature, effect, development, review, manufacture and dispensing of medications.

Source: wikipedia.org

1493–1541

Paracelsus, Swiss-German physician and alchemist who established the role of chemistry in medicine

Source: britannica.com

40–90 CE

Pedanius Dioscorides, Greek physician and pharmacologist; “De materia medica”, descriptions of nearly 600 plants

Source: britannica.com

460–375 BC

Hippocrates, ancient Greek physician who is traditionally regarded as the father of medicine

Source: britannica.com

1069–1046 BC

“Diagnostic Handbook” containing a list of medical symptoms

Source: wikipedia.org

11th century

“Tacuinum Sanitatis” is a medieval handbook mainly on health

Source: wikipedia.org

129–216 CE

Galen of Pergamum, Greek physician, writer and philosopher

Source: britannica.com

9th century

“Schola Medica Salernitana” was the most important medical school in Western Europe

Source: wikipedia.org

Dispensing medicines

2.3 %

Swiss households spent 2.3% of their income on medicines in 2016.

Source: interpharma.ch

Research & development

Global spending on R&D by Interpharma companies (including Vifor Pharma) was over CHF 20 billion in 2015. Switzerland ranks second behind the USA with 34.6% of this.

Source: interpharma.ch

Healthcare costs

Medicines accounted for 10.5% of healthcare costs in 2013 (latest available data).

Source: interpharma.ch



2015

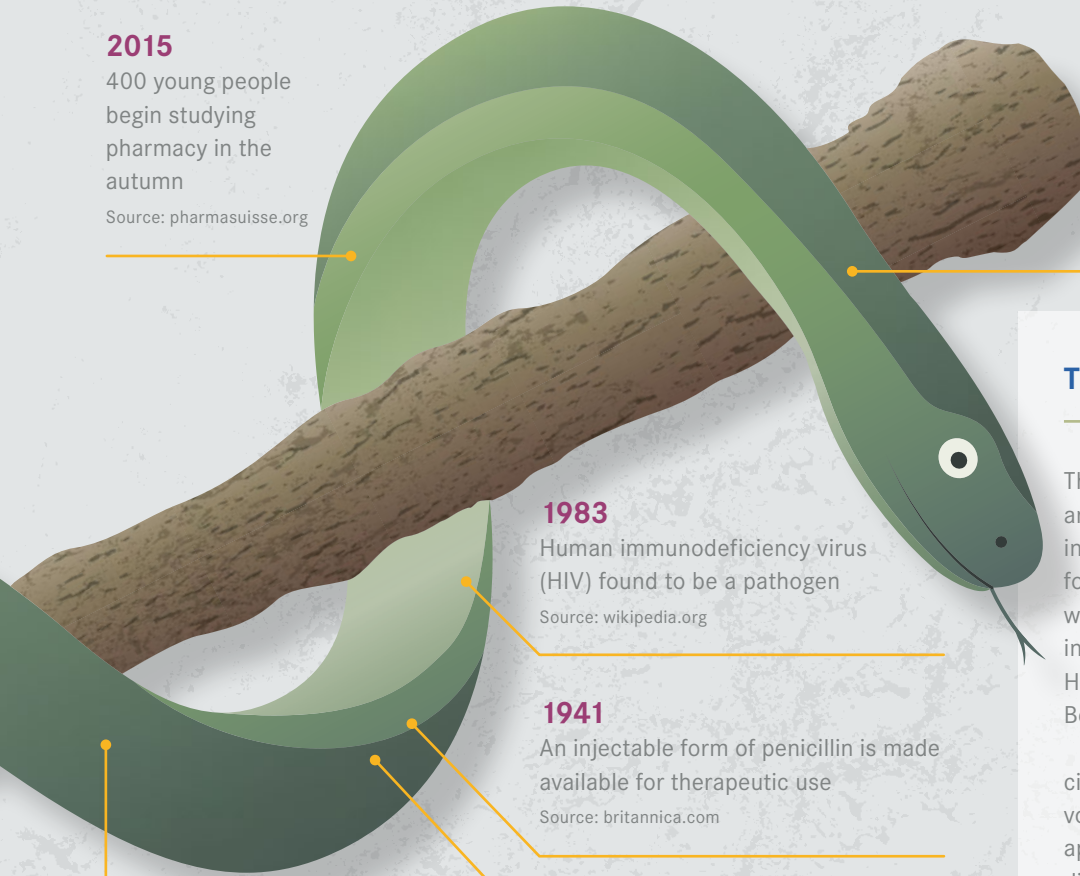
400 young people begin studying pharmacy in the autumn

Source: pharmasuisse.org

2016

The Nobel Prize in Physiology or Medicine is awarded to Yoshinori Ohsumi

Source: nobelprize.org



1983

Human immunodeficiency virus (HIV) found to be a pathogen

Source: wikipedia.org

1941

An injectable form of penicillin is made available for therapeutic use

Source: britannica.com

1804

Friedrich W. Sertürner discovers morphium

Source: britannica.com

1901

The first Nobel Prize in Physiology or Medicine is awarded to Emil von Behring

Source: nobelprize.org

The Rod of Asclepius

The Rod of Asclepius is a staff entwined by a snake. Originally an attribute of Asclepius, the god of healing in Greek mythology, it today stands as a symbol for the medical and pharmaceutical professions.

Asclepius is said to have always had an asp with him when out walking or going to see the sick. In the ancient world, the snake became a symbol of healing. Its characteristic features of rejuvenation by shedding its skin, perception/watchfulness and healing power made it an emblem of medical virtues.

Source: wikipedia.org

The Nobel Prize in Medicine

The Nobel Prizes in Physics, Chemistry and Medicine endowed by Swedish industrialist Alfred Nobel were awarded for the first time in 1901. The first winners were Wilhelm Conrad Röntgen in physics, Jacobus Henricus van't Hoff in chemistry and Emil Adolf von Behring in medicine.

The Nobel Prize in Physiology or Medicine 1901 was awarded to Emil Adolf von Behring "for his work on serum therapy, especially its application against diphtheria, by which he has opened a new road in the domain of medical science and thereby placed in the hands of the physician a victorious weapon against illness and deaths".

Since 1901, the following Swiss citizens (or Swiss dual nationals) have won the Nobel Prize in Medicine:

- 1909: Emil Theodor Kocher
- 1948: Paul H. Müller
- 1949: Walter Rudolf Hess
- 1950: Tadeus Reichstein
- 1951: Max Theiler
- 1957: Daniel Bovet
- 1978: Werner Arber
- 1992: Edmond H. Fischer
- 1996: Rolf M. Zinkernagel

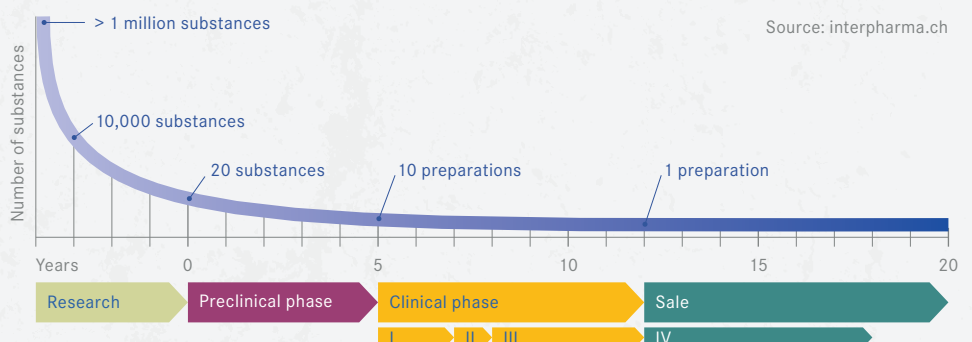
Source: nobelprize.org

Authorisation of therapeutic products

Swissmedic is the Swiss agency responsible for the authorisation and supervision of therapeutic products. 28 medicinal products for human use with new active ingredients were approved in 2015. This took medicinal products for human use authorised in Switzerland to 7,593 in 2015.

Source: interpharma.ch

The background to a medicine



Business unit

Vifor Pharma



Ready and prepared for independence

Dear Shareholders,
Ladies and Gentlemen,

In 2016, we once again set ourselves ambitious goals as we strive to make Vifor Pharma an independent, global specialty pharmaceutical company. We are committed to reinforcing our leadership in iron deficiency and further increase the awareness of this very common but often overlooked conditions. Vifor Fresenius Medical Care Renal Pharma (VFMCRP) – our common company with Fresenius Medical Care – is building on its leading position in nephrology. And finally, we are working hard to create an internationally competitive organisation and standalone business.

We are pleased to report substantial progress in achieving all of these goals during 2016. In addition to expanding our leadership in iron deficiency and growing the overall market by optimising the performance of existing products, we have taken a number of steps to find new sources of

growth for the future. Most importantly, through the Galenica Group’s acquisition of US company Relypsa Inc., in September 2016, Vifor Pharma has gained a dedicated US sales organisation and worldwide rights to Veltassa®, a potassium binder for the treatment of hyperkalaemia – a potentially life-threatening condition. This breakthrough therapy is the first new medicine in more than 50 years for patients with elevated serum potassium.

Overall, Vifor Pharma’s net sales rose by 24.8% to CHF 1,167.0 million. Sales of our iron product Ferinject® (US brand name: Injectafer®) generated by Vifor Pharma affiliates and partners, once again grew impressively all over the world, totaling CHF 349.5 million (+39.3%). This remarkable progress was driven by increased sales in the USA and Australia, as well as in major European countries. In addition to enhanced marketing and sales activities for Ferinject®, we also continued to invest in related R&D, including the important EFFECT-HF trial in Chronic Heart Failure patients, with positive results presented at the Congress of the American Heart Association (AHA) in November 2016.



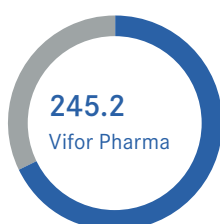
Gianni Zampieri
CEO Vifor Pharma

Net sales in million CHF



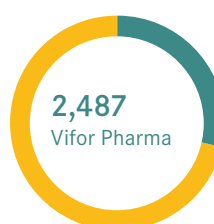
Galenica Group CHF 4,118.4 million

EBIT in million CHF



Galenica Group CHF 361.5 million

Number of employees



Galenica Group 8,661

The global rollout of Velphoro® also continued in 2016. This phosphate binder is now approved in 37 countries and launched in 23 countries, including in the USA, Europe's five largest markets and Japan. Study data from Fresenius Medical Care's retrospective analysis of databases are helping to demonstrate the benefits of Velphoro® for patients, including a lower pill burden and an increase in the number of patients able to achieve and maintain their target serum phosphorus levels.

During 2016, we continued to form partnerships with leading pharmaceutical and biotechnology companies. In May 2016, we licensed rights to commercialise CCX168 (international nonproprietary name: Avacopan), a Complement 5a inhibitor ready for Phase III development for orphan and rare renal diseases, from ChemoCentryx. At the end of December 2016, due to the encouraging clinical development of CCX168, VFMCRP decided to exercise its option to acquire from Vifor Pharma the exclusive licensing agreement to develop and commercialise CCX168. At the same time, Vifor Pharma and ChemoCentryx broadened the unique kidney health alliance to include the development and commercialisation of CCX140 for renal diseases.

Also in May 2016, we expanded our Erythropoiesis Stimulating Agent (ESA) product portfolio by obtaining marketing rights to Pfizer's proposed biosimilar epoetin Retacrit™ in the US dialysis market. In addition, VFMCRP obtained rights from OPKO Health to commercialise modified-release calcifediol capsules (US brand name: RAYALDEE®) for the treatment of secondary hyperparathyroidism in chronic kidney disease (CKD) and vitamin D deficiency in Europe, Canada and certain other international markets.

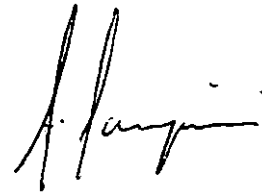
Our organisation is well prepared for life as an independent, global specialty pharmaceutical company and a partner of choice for the world's leading pharmaceutical companies. As we move towards becoming a standalone business during 2017, we continue to improve our operational efficiency and focus resources on the most attractive growth opportunities.

The management team of Vifor Pharma was further strengthened by the appointment of Stefan Schulze as Chief Operating Officer and President of the Executive Committee. Stefan Schulze is currently CEO of VFMCRP and will assume his new responsibilities at the Annual General Meeting of Galenica Ltd. in May 2017.

Our people and products are the two most important pillars of our future success. With a differentiated and promising product portfolio, growing recognition of our unique capabilities and leadership, and the entrepreneurial spirit and dedication of our employees, I am confident that Vifor Pharma has a bright future. Increasingly our success will be generated globally. But our roots will always be in our home market, Switzerland, with its R & D and production facilities.

I would like to thank all of the employees for their contribution to making 2016 a very successful year. We are all looking forward to the future as an independent, global specialty pharmaceutical company.

Bern, 14 March 2017



Gianni Zampieri
CEO Vifor Pharma

CHF
+24.8 % 117.0 million

net sales increase

investments in research & development (with Relypsa)

Vifor Pharma

Broadening the product portfolio

“With Relypsa, we have made a significant investment in our global platform.”

Strategic priorities 2017

- Establish Vifor Pharma as an independent, global specialty pharmaceutical company following the IPO of Galenica Santé
- Enhance Vifor Pharma’s global footprint while remaining true to its Swiss roots
- Continue to increase the confidence of private and institutional shareholders
- Expand the iron market, especially in the USA, by further increasing awareness around iron deficiency
- Reinforce VFMCRP’s position as a leading player in nephrology in close cooperation with our partner Fresenius Medical Care
- Combine commercial assets and best-in-class cardio-renal products of Vifor Pharma, Relypsa and VFMCRP to become a major player

Strong operating results

Vifor Pharma achieved another set of strong results in 2016. The Vifor Pharma Business unit generated total net sales of CHF 1,167.0 million, an increase of 24.8% compared to the previous year, or 23.0% adjusted for currency effects. This significant growth was achieved organically. Excluding the impact of the Relypsa acquisition, earnings before interest, taxes, depreciation and amortisation (EBITDA) rose to CHF 434.3 million, an increase of 16.5% compared to the prior year. However, with the inclusion of Relypsa, reported EBITDA for 2016 was CHF 330.9 million or a decrease of 11.3% (CHF 42.0 million) compared to the previous year. Excluding Relypsa, earnings before interest and taxes (EBIT) increased by 14.3% to CHF 374.6 million. With the inclusion of Relypsa, reported EBIT was CHF 245.2 million or a decrease of 25.2% (CHF 82.5 million) compared to the prior year. Investment in R&D and production facilities predominantly in Switzerland, totalled CHF 100.8 million without the Relypsa acquisition and CHF 117.0 million with the acquisition of Relypsa.



Gianni Zampieri
CEO Vifor Pharma

Relypsa, a new Vifor Pharma company

Relypsa is a biopharmaceutical company leading the discovery, development and commercialisation of polymer-based medicines to treat conditions that are often overlooked and undertreated, but that can have a serious impact on patient lives or even be life-threatening. The company developed Veltassa[®], a potassium binder approved in the USA for the treatment of hyperkalaemia.

Relypsa was founded in October 2007 and is headquartered in Redwood City, California. In September 2016, Relypsa became a Vifor Pharma company. Through the acquisition, Vifor Pharma gained a fully-integrated commercial organisation and an innovative R&D organisation in the USA. Relypsa has over 400 employees of which around 15% work in R&D and around 60% in commercial and medical affairs.

“Sales of Ferinject[®] grew impressively all over the world.”

Acquisition of Relypsa completed

The combination of Vifor Pharma with Relypsa creates a significant player in cardio-renal care in the USA and further strengthens Vifor Pharma's growing international leadership in cardiology, nephrology and gastroenterology therapies. With Relypsa, Vifor Pharma can build on a fully-integrated commercial organisation in the key US cardio-renal market by leveraging its extensive and growing specialty portfolio. By combining the commercial assets and best-in-class cardio-renal products of Vifor Pharma, Relypsa and VFMCRP, Vifor Pharma is well positioned to become a major player in the USA in its core therapy areas.

Relypsa's first product is Veltassa[®] (patiromer for oral suspension), an oral potassium binder approved in the USA for the treatment of hyperkalaemia, a potentially life-threatening condition defined as abnormally elevated serum potassium. The product reflects Relypsa's rich legacy in polymer science. Relypsa's potassium binder Veltassa[®] (brand name in the USA) recorded sales of CHF 12.3 million in the USA in 2016, thereof CHF 7.4 million since its acquisition in September 2016. In April 2016, VFMCRP submitted a Marketing Authorisation Application (MAA) for patiromer powder for oral suspension to the European Medicines Agency (EMA) for the treatment of hyperkalaemia. In November 2016, the potential of Veltassa[®] as a key growth driver for Vifor Pharma was reinforced by the US FDA's approval of a supplemental New Drug Application (sNDA) with important updates to the product label. Namely, the updated US label recommends patients take Veltassa[®] at least three hours before or three hours after other oral medications, compared to six hours on the previous label. In addition, the US label for Veltassa[®] no longer includes a Boxed Warning regarding the separation of Veltassa[®] and other oral medications.

Vifor Pharma Rx continues to grow

Mainly driven by expansion in the EU and the USA the leading iron product Ferinject[®] (US brand name: Injectafer[®]) continued to increase global sales, which rose 39.3% to CHF 349.5 million in 2016. This included sales by Vifor Pharma affiliates and partners, with Vifor Pharma receiving a share of partner sales. The number of units sold (100 mg) grew by 55% in all regions. Growth in net sales was slightly lower, reflecting price pressure due to increased competition and cost containment measures by payors.

According to IMS data, global market sales totalled approximately CHF 530 million (2015: CHF 370 million), an increase of 44% in 2016 (2015: 40%).

In the USA sales were up by 70.8%, strongly outperforming the overall US iron market. One success factor behind the performance is the continued close collaboration between Vifor Pharma and its US partner Luitpold Pharmaceuticals, Inc. Effective 1 January 2017, the sales and marketing activities performed by Luitpold were transferred to Daiichi Sankyo, Inc., to maximise sales potential of Injectafer[®]. This will increase the Injectafer[®] footprint four-fold to more than 300 sales professionals to promote Injectafer[®]. In Switzerland, the number of 100 mg units of Ferinject[®] grew by 8%.

Sales grew particularly strongly in Australia (46%), Spain (33%), France (27%) and Germany (24%). The product has also been launched in a number of additional countries, including the United Arab Emirates, Uruguay, Morocco and Hong Kong, as well as in Saudi Arabia, which has the potential to become one of the top ten markets in the world for iron products.

All markets of the EU demonstrated solid double-digit growth in both volume and net sales, further boosted by Ferinject®'s recommendation as the product of choice for the treatment of iron deficiency in the Clinical Practice Guidelines of the European Society of Cardiology (ESC), a significant endorsement of the product's potential.

Vifor Pharma is continuing to strengthen its position through disease awareness programmes, additional clinical studies, medical education support for physicians and participation at key congresses. The company presented the results of its EFFECT-HF study in Chronic Heart Failure patients with iron deficiency at a late-breaking session of the American Heart Association Congress in November 2016. In the third quarter of 2016, the company initiated activities for the AFFIRM-AHF study to demonstrate the effect of Ferinject® on hospitalisations and mortality in iron deficient patients admitted for acute heart failure.

Ferinject® was featured in presentations to more than 350 healthcare professionals at the European Iron Academy in Berlin. It was also presented at the 53rd Congress of the European Renal Association and European Dialysis and Transplant Association (ERA-EDTA) in Vienna, one of the world-leading nephrology congresses, where the benefits of Ferinject® in treatment of ND-CKD patients with iron deficiency and anaemia were shown.

Mircera® – a rapidly growing contribution

Mircera® generated sales of CHF 328.6 million (+59.0%) in 2016. Mircera®, a long acting Erythropoietin Stimulating Agent (ESA) for treatment of symptomatic anaemia associated with CKD, has been an ideal complement to Vifor Pharma's product portfolio since May 2015, when Galenica and Roche entered into an exclusive licensing agreement for the commercialisation of Mircera® in the USA and Puerto Rico.

Velphoro® – key launches completed

In 2016, sales of the phosphate binder Velphoro® rose 25.8% to CHF 54.4 million, with the successful rollout confirming its unique profile. Velphoro® is now approved in 37 countries and launched in 23 countries. It is available in all key markets including Japan, the USA and the five major European pharmaceutical markets. In clinical practice, 12 months of Velphoro® treatment has helped patients to reduce their serum phosphorus levels to target, as demonstrated in a real-life study from Fresenius Medical Care presented at the 2016 American Society of Nephrology (ASN) Kidney Week. Vifor Pharma continues to work on the development of Velphoro®. Under the VERIFIE programme, phase IV studies were initiated in 2016 enabling the use of Velphoro® to be monitored in real-life conditions in patients in Europe.

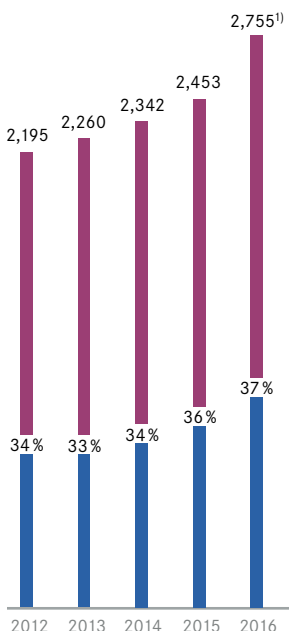
The 2016 heart failure guidelines from the European Society of Cardiology recommend Ferinject® for the treatment of iron deficiency in patients with systolic heart failure

The 2016 ESC Guidelines for the diagnosis and treatment of acute and chronic heart failure, published in May 2016, recommend Ferinject® for the treatment of iron deficiency in patients with systolic heart failure. Furthermore, the guidelines confirm that iron deficiency is an important co-morbidity and recommend screening and diagnosis of iron deficiency in all patients newly diagnosed with systolic heart failure. The guidelines reinforce the wealth of evidence showing Ferinject® can significantly improve heart failure symptoms, exercise capacity and quality of life for these patients, and that it has the potential to reduce hospitalisation.

“The combination with Relypsa creates a significant player in cardio-renal care in the USA.”

Global market for iron products

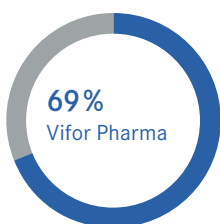
Overall development in million CHF¹⁾



■ Market share Vifor Pharma
■ Other (~2,700 corporations)

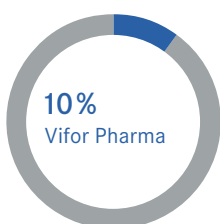
(Source: IMS Midas; CHF/MNF, MAT 2016–Q3)

Sub-market share 2016 Intravenous iron



Total CHF 1,336 million²⁾

Sub-market share 2016 Oral iron



Total CHF 1,419 million^{1) 2)}

¹⁾ Data adjusted for hyperinflation in Venezuela
²⁾ Average exchange rates 2016

“Vifor Pharma continued to invest in its R&D and manufacturing facilities.”

Venofer® – continued investment in reliable iron delivery

Venofer® showed an excellent sales development of 14.7% up to CHF 125.0 million. So far, more than 434 million 100 mg doses of Venofer® have been used in patients, equivalent to almost 22 million patient years.

VFMCPR is currently investing in an academia-led clinical trial assessing optimised anaemia treatment in haemodialysis patients. This largest prospective clinical trial, called PIVOTAL, is supported by a research grant from VFMCPR to Kidney Research UK and is expected to be completed by mid-2018.

Maltofer® – solid ongoing business

Sales of other iron products totalled CHF 64.2 million by year-end (+1.1%). The oral iron product Maltofer® reported sales of CHF 55.0 million (+3.4%). Sales of other prescription medicines, which are primarily marketed in Switzerland and Spain, amounted to CHF 82.6 million (+9.8%).

ALOXI® – a new anti-nausea option for children with cancer

In August 2016, Swissmedic approved ALOXI® for use in the prevention of Chemotherapy Induced Nausea and Vomiting (CINV) in children aged from one month to 17 years in Switzerland. This followed EMA approval in 2015 and FDA approval in 2014. This is the first Swiss approval of an anti-nausea therapy for children aged from one to six months undergoing chemotherapy. Vifor Pharma has a promotion and distribution agreement for ALOXI® in Switzerland and other countries with the Swiss pharmaceutical group Helsinn.

Vifor Fresenius Medical Care Renal Pharma – key to continued success

A crucial element of Vifor Pharma’s continued success is its strong global network and successful partnerships. VFMCPR, the common company with Fresenius Medical Care, plays a central role in the growth of Vifor Pharma’s products and its international expansion.

In May 2016, VFMCPR obtained the rights from OPKO Health to commercialise modified-release calcifediol capsules (US brand name: RAYALDEE®) for the treatment of secondary hyperparathyroidism (SHPT) in chronic kidney disease (CKD) and vitamin D deficiency in Europe, Canada and certain other international markets. The two companies will collaborate to develop and commercialise RAYALDEE® for the treatment of SHPT in dialysis patients. Furthermore, VFMCPR has an option to acquire rights to the US market for treatment of dialysis patients.

Also in May 2016, Vifor Pharma and ChemoCentryx entered a unique kidney health alliance, with Vifor Pharma licensing commercial rights in Europe, Canada, Mexico, Central and South America and South Korea to CCX168 (international non-proprietary name: Avacopan), a Complement 5a Receptor inhibitor ready for Phase III development for orphan and rare renal diseases. CCX168 is being developed by ChemoCentryx for the treatment of conditions including anti-neutrophil cytoplasmic antibody (ANCA)-associated vasculitis (AAV) and has obtained orphan drug status in the USA and Europe. At the end of December 2016, due to the encouraging clinical development of CCX168, VFMCRP decided to exercise its option to acquire from Vifor Pharma the exclusive licensing agreement to develop and commercialise CCX168. At the same time, Vifor Pharma and ChemoCentryx broadened the unique kidney health alliance to include the development and commercialisation of CCX140 for renal diseases.

“The number one priority for 2017 is to establish Vifor Pharma as an independent, global pharmaceutical company.”

Also in May 2016, Vifor Pharma further expanded its Erythropoiesis Stimulating Agent (ESA) portfolio with the licensing of commercialisation rights in the US dialysis market to Pfizer’s Retacrit™, a proposed biosimilar epoetin, in nephrology. Retacrit™ is under review for the treatment of anaemia associated with CKD, renal failure and chemotherapy-induced anaemia. Once Retacrit™ is approved, Vifor Pharma will be able to offer both short-acting and long-acting ESA therapies to the US dialysis market.

Total net sales Rx products

in million CHF	2016	2015	Change in %
Intravenous (i. v.) iron replacement products			
Ferinject® and Injectafer®	349.5	250.9	+39.3
of which Injectafer® USA	67.4	38.5	+74.9
Venofer®	125.0	108.9	+14.7
Other iron replacement products	64.2	63.5	+1.1
of which Maltofer®	55.0	53.2	+3.4
Erythropoietin (ESA/EPO)			
Mircera®	328.6	206.8	+59.0 ¹⁾
Phosphate binder			
Velphoro®	54.4	43.2	+25.8
Potassium binder			
Veltassa®	7.4 ²⁾	–	–
Other Rx products	82.6	75.3	+9.8
Revenues and licence fee income			
CellCept®	86.4	88.5	-2.4

¹⁾ 12 months on the market compared to 7 months (as of June) in 2015

²⁾ 4 months since acquisition of Relypsa

Net sales Infectious Diseases/OTX products

in million CHF	2016	2015	Change in %
Broncho-Vaxom®	41.4	50.5	-17.8
Doxium®	20.4	27.1	-24.7
Dicynone®	15.8	18.6	-15.4
Uro-Vaxom®	15.1	15.7	-3.5

Infectious Diseases/OTX – helping to overcome antibiotic resistance

In 2016, the Infectious Diseases/OTX franchise achieved global sales of CHF 103.1 million (-15.4%). This decrease was mainly due to changes in commercial partners and the generally challenging economic situation in South America. However, in the past two years the Infectious Diseases/OTX franchise recorded growth of more than 5% p. a. according to IMS data.

The continued rise of antimicrobial resistance around the world is a major focus of concern for international health agencies and governments. There is growing medical interest in the potential of both Broncho-Vaxom® and Uro-Vaxom®, and Vifor Pharma believes they will play an important role in helping patients to prevent recurrent infections, therefore reducing use of antibiotics.

Investment in production facilities

Vifor Pharma continued to invest in its state-of-the-art R&D and manufacturing facilities. In St. Gallen, Switzerland, a new packaging line for Ferinject® and Venofer® was installed in 2016. This new line packs and labels vials and ampoules automatically and is equipped with a modern track-and-trace system which helps to meet the increasing regulatory requirements around patient safety.

In Portugal, Vifor Pharma laid the foundation stone for a new production facility that will eventually manufacture Veltassa® for all markets outside the USA. Production is expected to start in 2018, initially providing Veltassa® to countries in the EU.

Outlook

The number one priority for 2017 is to establish Vifor Pharma as an independent, global specialty pharmaceutical company following the planned IPO of Galenica Santé.

The company intends to increase its global presence while at the same time keeping its strong roots in its home market, Switzerland.

Vifor Pharma also expects to expand the iron market, especially in the USA, by further increasing awareness around iron deficiency; and further establish VFMCRP as a leading player in nephrology in close cooperation with our business partner Fresenius Medical Care.

With the combination of the assets and best-in-class cardio-renal products of Vifor Pharma, Relypsa and VFMCRP, Vifor Pharma is positioned to become a major player in this core therapeutic area.



Vifor Pharma products for the treatment of iron deficiency have been previously researched and developed in **St. Gallen**, where they are still manufactured today.



Better protection thanks to serialisation

Improving patients' health and the quality of medications are top priorities for Vifor Pharma. That is why the company is actively committed to protection against counterfeiting of medications, and why it successfully started serialising prescription medications in 2013.

Over a million people die every year as a result of counterfeit medications. The World Health Organization (WHO) estimates that up to 10% of medications globally are counterfeit, and as much as 30% in Asia, Africa and Latin America. In industrialised countries, by contrast, the strict approval and licensing procedures for therapeutic products are such that there is scarcely any danger of being given counterfeit medications in a pharmacy or medical practice. However, the number of counterfeit medications via Internet sales in countries like Switzerland is rising steadily (see text box page 38). So counterfeit medications are a serious danger to patient health all over the world.

It is not only lifestyle products like anti-impotence or slimming drugs that are being counterfeited: so too are products that save lives, such as cancer medicines, antibiotics and other prescription medications. It is dangerous when such medications do not contain the expected active ingredient at all, or even have toxins in them. Patients' health is also in danger if medications contain the right active ingredient, but at too high or too low a dose.

Counterfeit medications are not just a problem for patient safety, they also harm pharma companies: their intellectual property is damaged, they miss out on sales, face liability suits and, ultimately, suffer reputational damage. As a global pharma company, Vifor Pharma too faces challenges in protecting against counterfeits. It therefore uses targeted measures to make medications more secure from being counterfeited, in order to ensure patient safety and build trust.

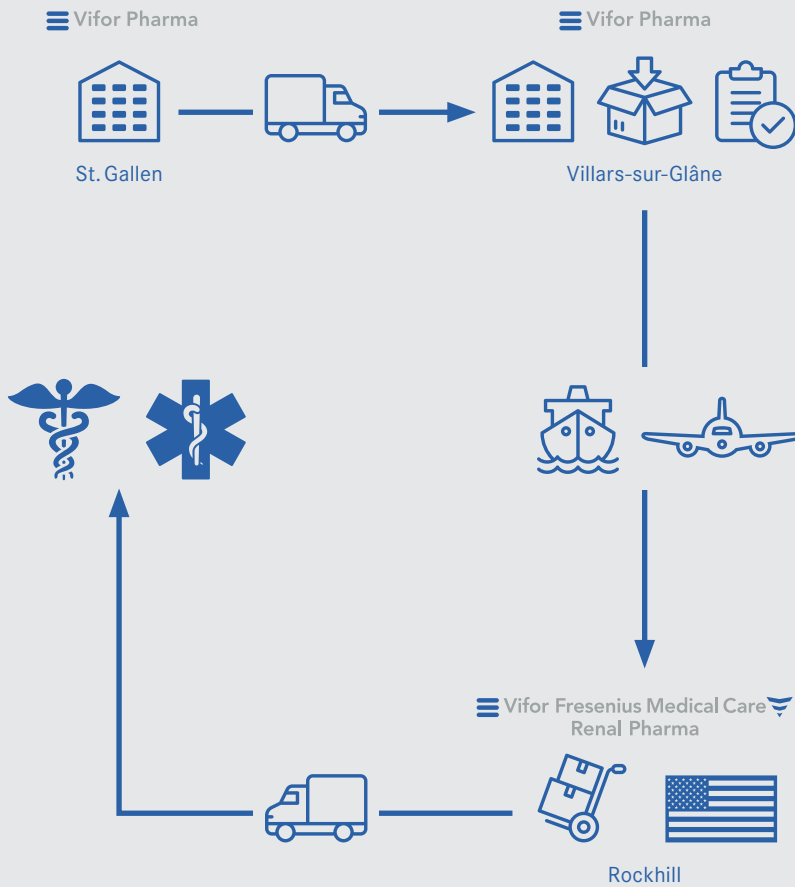


Security features increase protection against counterfeit medications

But how can pharma companies contribute to the struggle against counterfeit medications? “Pharmaceutical companies use both visible and hidden features to make counterfeiting more difficult”, explains Francesco Porfido, a packaging expert at Vifor Pharma. “These include holograms, inks that change colour and iridescent surfaces that look a different colour depending on the perspective.” Another possibility is tamper-evident features. “That might, for example, be a special label stuck over the end flaps of the cardboard box so you can see at once if the packaging has already been opened”, he says. Cooperation between pharma companies and the regulatory and customs authorities is also crucial in identifying counterfeits.

Serialisation on the increase

In many countries, laws are being drafted that require serialisation or track and trace solutions for prescription medications. With serialisation, a unique serial number is placed on the packaging, allowing the medication to be unambiguously identified at the point of sale. For Europe, this mainly affects manufacturers and dispensers at the beginning and end of the supply chain. Track and trace solutions (as in the USA and Brazil) will in future ensure that medications can be followed all along the supply chain (see text box page 38). This means that wholesalers will also be affected by verification. Serialisation is already a reality in some countries, such as South Korea and China, whereas the high degree of complexity and data protection mean that track and trace solutions are still at the development stage. ▶



An example of serialisation: Velphoro®

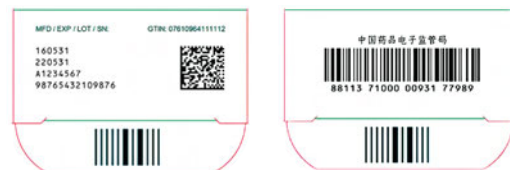
The graphic shows the value chain for Velphoro®. Vifor Pharma manufactures the active pharmaceutical ingredient (API) at its facility in St. Gallen. In Villars-sur-Glâne, the Velphoro® tablets are made and bottled, and packed into cardboard boxes. The internal Vifor Pharma system contains a special entry if Velphoro® is distributed in the US market. The system therefore allocates an individual serial number to each pack, which is printed on the cardboard box with other information, such as a 2D DataMatrix code (see text box below). So each individual box has its own 2D DataMatrix code and can be subsequently identified. The machines at production sites are set up and programmed so they can print all types of codes. Once the code has been printed, the medication is then sent to partner company Fresenius Medical Care in the USA. Fresenius Medical Care ensures the medication is delivered to hospitals and pharmacies. If a pharmacist or physician scans the code when dispensing the medication, the system immediately identifies that the 2D DataMatrix code actually exists and that this pack has not been dispensed before.

In the USA, things will even go a step further in future: track and trace is expected to be introduced for prescription medications from 2023. That would make it possible to follow the transport of each individual pack of Velphoro® by means of the 2D DataMatrix code by scanning the code in and out at every link in the supply chain.

Imports of counterfeit medications over the Internet are increasing

The danger of counterfeit medications in industrialised countries is greatest when the medications are ordered over the Internet. According to the WHO, over 50% of these may be counterfeit. In recent years, Switzerland has seen an increase in counterfeit medications from illegal trading on the Internet. The Federal Customs Administration reported 1,225 suspicious and potentially illegal imports of medications in 2014. Based on their own controls, Swissmedic and the Customs Administration estimate that at least 50,000 illegal packages of medications are sent to Switzerland by post every year.

An overview of current serialisation codes



GS1, a globally operating, private sector, non-profit organisation that promotes standardisation in company supply chains, recommends the **2D DataMatrix code** for serialisation. This is affixed to the sales packaging of the medication and contains the following information: serial number (SN), expiry date (EXP), manufacturing date (MFD), the global trade item number of the product (GTIN) and the lot number (LOT). The information may vary by country. At present, the following countries follow the GS1 standard: USA, South Korea, Saudi Arabia and the EU.

The **linear barcode** required in China contains the expiry date, lot number and manufacturing date, but not the GTIN. The serial numbers are issued by the Chinese health authorities and must be affixed to the packaging by the manufacturer.

- ▶ From November 2017, Vifor Pharma will have to serialise all prescription medications for the US market with a 2D DataMatrix code (see text box page 38). By contrast, medications for the Chinese market have been marked with a linear barcode since the start of 2016 (see text box page 38). In China, where the state health authorities issue the serial numbers, Vifor Pharma obtains them through the local distribution partners. From February 2019, prescription medications in the European Union (EU) will have to comply with the requirements of Directive 2011/62/EU, which stipulates a 2D DataMatrix code and tamper protection. The code will only be checked at the point of sale, i. e. track and trace is not required. The plan is that manufacturers such as Vifor Pharma will in future supply product data to a central European hub, which will pass it on to the national hubs in the countries where the products are sold. At the moment, there are many indications that Switzerland will also adopt the EU Directive of its own volition. “It is probable that within the next ten years, serialisation will be required for 90% of all prescription medications”, estimates project head Kai Köpke.

Serialisation started back in 2013

For Vifor Pharma, which has a growing global presence with subsidiaries and distribution partners in around 100 countries, the differing country-specific rules and technical standards that are being put in place are a major challenge. That is why, back in September 2013, Vifor Pharma gave the go-ahead to serialisation with a pilot project for eight different packaging lines spread across all manufacturing sites.

Kai Köpke, who has a PhD in pharmacy, took over running the project in early 2014: “Implementation was very complex, and both technically and organisationally challenging. It affects all sorts of different units, from IT and quality assurance through to the manufacturing locations, as well as Vifor Pharma’s contract manufacturers and the partners for whom Vifor Pharma produces medications.” The serialisation system at Vifor Pharma works on several levels. The IT involved has been outsourced to specialist external systems providers.

At the start of 2016, the first four packaging lines with serialisation were successfully approved for routine production, two more followed in summer 2016 and the last two were implemented at the end of the year. In September 2016, Vifor Pharma also started serialisation of products for the US market. One of these is Velphoro®, a non-calcium, iron-based phos-

phate binder in the form of a chewable tablet intended for people with chronic kidney disease (see text box page 38). So if a customer buys a box of Velphoro® tablets in a drugstore somewhere in the USA at the end of 2017, thanks to serialisation, the pharmacist behind the counter will be able to check that the medication is definitely a Vifor Pharma product and not a counterfeit.

Although the system has been implemented successfully, there will be new requirements and system and software updates in future. “That’s why continuous learning is very important for us”, emphasises packaging expert Francesco Porfido, who is also in charge of the company’s internal competence centre for serialisation which was set up during the pilot project. In future, Francesco Porfido and his team will oversee all technical measures involving serialisation, from packaging design and specification through to the infrastructure on the production line.

Well equipped for the future

Despite the many challenges linked with serialisation, project managers Kai Köpke and Francesco Porfido feel that so far the results have been positive. “We are already in a position to ensure serialisation of the products manufactured today. The next step will now be to implement the EU Directive requiring the 2D DataMatrix code and tamper protection”, says Kai Köpke. And Francesco Porfido adds: “Vifor Pharma has already introduced tamper protection for nearly all packaging. Unlike serialisation, this is not a major technical challenge.” So Vifor Pharma is well equipped for the future and will continue to ensure that patient health is protected.

Business unit

Galenica Santé



Building trust through credibility and competence

Dear Shareholders,
Ladies and Gentlemen,

Galenica Santé and 2016: a year full of action! All Business sectors performed well during the course of the year. The increase in sales of Galenica Santé of 3.2% to CHF 3,008.9 million indicates that we have correctly pursued our core activities on our path to being our customers' first choice in Switzerland for health, beauty and wellbeing. We have concentrated our strengths in the face of continuing pressure on drug prices and consumer tourism outside Switzerland, which has developed from a one-time effect to a permanent state of affairs. In addition, the 2016 flu season was comparatively mild, leading to considerably lower sales of flu medicines.

Galenica Santé was nonetheless able to increase its sales in 2016, by acquiring new customers and expanding its pharmacy network. We are confident of being able to tap further potential and are well-positioned to do so, as evidenced by the earnings before interest and taxes (EBIT), which again exceeded sales growth in the year under review, increasing by 6.2% to CHF 136.0 million. We made investments totalling CHF 34.7 million in 2016 (previous year: CHF 43.8 million), which were, among others, used to finalise the expansion works of Galexis in Niederbipp.

We want to broaden our sales and profit base. To do so, we must stay flexible and agile. Our customers expect offers tailored to their needs. Our challenge is to anticipate trends and help shape the Swiss healthcare market with innovations.

In the second half of 2016, the Federal Council decided that the function of pharmacies as the first point of contact for



Jörg Kneubühler
CEO Galenica Santé

Net sales

in million CHF



Galenica Group CHF 4,118.4 million

EBIT

in million CHF



Galenica Group CHF 361.5 million

Number of employees



Galenica Group 8,661

medical services should be expanded. Pharmacies should also play a key role in health prevention and the treatment of chronic diseases. This assumes a separate room in the pharmacy in which consultations can be held. Under a pilot project, Galenica Santé plans to operate two pharmacies with this expanded range of medical services in 2017, with the aim of obtaining new insights into customers' primary care needs.

While these types of services are becoming more important, the comprehensive product range with strong brands remains the core of our offering. Our own brands Algifor®, Anti-Brumm®, Perskindol® and Trioфан® are among the market-leading products in their segments. Galenica Santé's product range is increasingly complemented by exclusive beauty and grooming products from well-known partners. For example, an agreement was signed in 2016 for the exclusive distribution of A-Derma products from the world's second-largest dermo-cosmetics laboratory, Pierre Fabre. The launch was extremely successful in all three pharmacy formats: Amavita, Sun Store and Coop Vitality. Since the beginning of 2017 we have been distributing exclusively in Switzerland the Lierac skincare brand and the Phyto haircare brand from the French Alès Groupe. Further exclusive partnerships are set to follow.

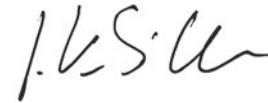
Galenica Santé operates the largest pharmacy network in Switzerland and ensures efficient, safe distribution to some 500 own locations, Coop Vitality pharmacies as well as Amavita and Winconcept partner pharmacies. The expansion in 2016 of the Niederbipp logistics centre enables high volumes to be processed on schedule. The acquisition of the physicians wholesaler Pharmapool at the beginning of 2017 will contribute to providing market participants throughout Switzerland with integrated solutions from a single source.

Increasing efficiency is one of the main objectives of Galenica Santé. To this end, we increased cooperation both within and between the three Business sectors in 2016, coordinating common processes more closely. The two headquarters of the Retail Business sector in St-Sulpice and Bern are being merged gradually at a single location in Bern. The project will be completed by mid-2017.

Our journey to date shows that we have the necessary experience and skills for a successful future: entrepreneurial thinking, willingness to change and passion. We place high demands on ourselves – and on all employees. Our thanks go to them. Their performance deserves respect. Because they strive every day to live up to our aspiration to build trust through credibility and

competence. As an experienced team, they contribute to Galenica Santé continuing successfully on its path in the future.

Bern, 14 March 2017



Jörg Kneubühler
CEO Galenica Santé

+6.2 %

EBIT increase

CHF
34.7 million

investments



HCI Solutions maintains databases and develops management solutions that focus specifically on needs for the networked healthcare market.



Segment

Health & Beauty

Products & Brands and Retail Business sectors



Jörg Kneubühler
CEO Galenica Santé

Health, beauty and wellbeing

Galenica Santé has the largest pharmacy network in Switzerland, giving it an excellent distribution network both for strong own brands as well as the products of its business partners. In terms of strategy, it aims to strengthen its leading position in pain relief, coughs, colds and respiratory diseases, and expand the cosmetics and beauty market segments.

Net sales in the Health & Beauty segment, comprising the Products & Brands and Retail Business sectors, rose by 3.1% to CHF 1,437.0 million in 2016. EBIT improved by 7.2% to CHF 96.2 million. Compared to the previous year, return on sales (ROS) increased to 6.7%. Investments totalled CHF 14.9 million in 2016 (previous year: CHF 17.7 million).

Segment Health & Beauty

Key figures 2016

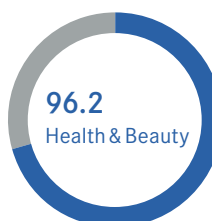
- Net sales: CHF 1,437.0 million
- EBITDA: CHF 118.7 million
- EBIT: CHF 96.2 million
- ROS: 6.7%
- Investments: CHF 14.9 million
- Employees: 4,637
(3,423 full-time equivalents)
Of which:
- Products & Brands: 107
(93 full-time equivalents)
- Retail: 4,530
(3,330 full-time equivalents)

Net sales
in million CHF



Galenica Santé CHF 3,008.9 million

EBIT
in million CHF



Galenica Santé CHF 136.0 million

Products & Brands

Health, beauty and exclusivity from one source

“We offer business partners a unique network,
comprehensive know-how and speed to market.”

Strategic priorities 2017

- Sustain leadership of the top OTC categories, with focus on pain, coughs, colds and respiratory diseases
- Consolidate and further grow share of the consumer health market in pharmacies and drugstores throughout the country
- Expand branded business into new areas and develop related skills
- Build sourcing competencies to meet the entire spectrum of opportunities

Strong health portfolio

The Products & Brands Business sector increased sales by 0.5% to CHF 89.3 million in 2016. The growth was influenced by the discontinuation of the Equazen™ brand portfolio, which was sold along with Potters to Soho Flordis International at the end of 2015. Without this effect, Products & Brands grew by 6.2%.

Vifor Consumer Health generated total sales of CHF 81.4 million, which is on a par with the previous year. In Switzerland, the company clearly outperformed the overall growth of the stable market (IMS Health 2016) thanks to its renowned OTC brands, with year-on-year sales increasing by 3.5% to CHF 65.6 million. One of the contributing factors to this was the exclusive distribution of A-Derma products from the French dermo-cosmetics company Pierre Fabre, which have been very well received by customers in Switzerland since the launch in summer 2016.

At CHF 15.8 million, export sales declined by 12.6% due to the impact of the previously mentioned discontinuation of the Equazen™ brand portfolio.

More than 60 product brands are managed by Vifor Consumer Health, including famous brands such as Algifor®, Triofan®, Perskindol® and Anti-Brumm®. Algifor®, Swiss market leader in the pain relief category, outperformed the market in the period under review, and the new Algifor®



Torvald de Coverly Veale
Head Products & Brands Business sector

Net sales

in million CHF



Galenica Santé CHF 3,008.9 million

Number of employees



Galenica Santé 6,131

“Since January 2017, the Lierac brand of high-quality skincare products and Phyto haircare products have been distributed exclusively in Switzerland.”

Liquid capsules 400mg Ibuprofen launch was very well received by the market. Sales of the market-leading insect repellent Anti-Brumm® grew significantly in both national and international markets, reinforcing its prime position in Germany. The comprehensive range of Vifor Consumer Health over-the-counter products (OTC) is available in all pharmacies and drugstores in Switzerland. The Vifor Consumer Health team is able to respond quickly to client demand, plan new campaigns accordingly, and implement offers. An integral and very successful part of Vifor Consumer Health support for pharmacists is the regular training programme provided by the Vifor Consumer Health team of experienced consultants, which has become increasingly recognised as a key element in first-class client service.

Exporting selected brands

The intention of Vifor Consumer Health, with its strong position in the Swiss healthcare market, is to better exploit this potential across all Swiss pharmacies.

Vifor Consumer Health also plans to reinforce its international presence with selected products.

Anti-Brumm® and Perskindol® already enjoy good demand and brand recognition in countries such as Germany and Thailand.

Powerful partner services

Vifor Consumer Health also distributes pharmaceutical and para-pharmaceutical products on behalf of third parties. Sales increased in this business segment, stimulated by the introduction of new brands. A good example is the agreement signed with Procter & Gamble in 2015 to market and distribute Clearblue® and OralB® in all Swiss pharmacies.

Healthy Beauty – exclusive brands

Products & Brands signed an exclusive distribution contract with the French dermo-cosmetics company Pierre Fabre, the worldwide number two in this market. Their A-Derma range of products, exclusively offered by Galenica Santé in Switzerland, has been very well received. Based on a unique active ingredient called Rhealba® Oat, A-Derma is the first dermo-cosmetics brand with a natural, plant-based active ingredient that soothes and protects irritated and delicate skin. The agreement with Pierre Fabre was a first step in building a stronger franchise in the Swiss skin care market. The distribution agreement is being reinforced by various marketing activities as well as staff training in Amavita, Sun Store and Coop Vitality pharmacies.

A contract with the French Alès Group was signed mid-2016; the exclusive distribution in Switzerland by Galenica Santé of their Lierac skincare brand and their Phyto haircare brand started in early 2017.

New year, new launches

Going forward, the Products & Brands Business sector intends to continue with the strategy that has already proven its success: strengthen the health franchise in the Swiss OTC healthcare market; launch products with new partnerships, particularly with cosmetics and beauty products; and stimulate export sales with selected products.

To this end, Vifor Consumer Health signed a contract with the Austrian company Adler in 2016. The plan is to launch their proprietary “Schüssler Salze” products exclusively in Switzerland. These mineral salts are gluten free food supplements to promote general wellbeing, or compensate for deficiency or imbalance of specific minerals causing organ dysfunction. Also planned is the exclusive distribution in Switzerland of Excilor®, an anti-fungus medication. The introduction of new products will support growth of existing brands as well as strengthening the portfolio in new categories.

The companies of the Products & Brands Business sector

Vifor Consumer Health

- Markets non-prescription drugs (over-the-counter products) developed by Vifor Consumer Health, sold under licence or distributed for third parties.
- Plays a leading role in its home market Switzerland with key brands such as Algifor®, Trioфан®, Perskindol® and Anti-Brumm®.

G-Pharma

- Launch and distribution of Consumer Healthcare products for Retail own brands.

Retail

“Staying flexible thanks to efficiency.”

“Our customer service is characterised by competence, credibility and passion.”

Strategic priorities 2017

- Focus on customer service: tailored offerings, new services, innovative own brands and a compelling presence for all pharmacy formats
- Create a lean, flexible organisation: take advantage of synergies in procurement, product range management and all services
- Leeway for future price reduction measures: improve efficient business processes
- Promote growth: organically and inorganically with network expansion through own and independent partner pharmacies

Sales growth in a challenging market environment

The Retail Business sector continued to perform successfully in a challenging market environment in 2016, posting net sales of CHF 1,348.6 million (+3.1%, without Coop Vitality). The expansion of the pharmacy network was the key driver of this growth. The number of own pharmacies was increased by eleven locations to reach a total of 329, while like-for-like sales grew by 1.6%. Together with the Coop Vitality pharmacies, which are not consolidated, and the Amavita and Winconcept partner pharmacies, the pharmacy network of Galenica Santé comprised around 500 locations at the end of 2016.

Various strategic measures for the coming months were launched to provide broader support for sales development.

The environment was again challenging in 2016 as price reductions on prescription medicines continued to have a negative impact. Ongoing consumer tourism, price pressure from retailers and a milder flu season than last year also left their mark on the pharmacy market.



Jean-Claude Cléménçon
Head Retail Business sector

Net sales

in million CHF



Galenica Santé CHF 3,008.9 million

Number of employees



Galenica Santé 6,131

“Customers can now upload a scanned prescription to a platform and send it to the pharmacy of their choice electronically. The pharmacy receives the prescription by e-mail and can then prepare the medication, allowing waiting time to be kept to a minimum when it is collected.”

Cost reduction thanks to direct invoicing

With all Sun Store pharmacies having switched to directly invoicing health insurers in the previous year, Amavita pharmacies followed in 2016. Thanks to the TriaFact® platform developed by HCI Solutions and direct exchange between pharmacies and health insurers, invoice processing costs were reduced and data quality improved. The project was implemented on time and health insurers' rejection rates further diminished.

Expanded pharmacy network

Galenica Santé expanded the pharmacy network considerably over the year. The closure of three Sun Store pharmacies was compensated by new entrants of five Amavita pharmacies, five Coop Vitality pharmacies and four majority holdings. With three Amavita and three Winconcept partnerships discontinued, the pharmacy network comprised a total of 496 locations at 31 December 2016.

The proportion of own brands in the product range grew steadily at Amavita and Coop Vitality. These help to increase the recognition and market presence of both pharmacy formats.

Customer satisfaction is affected by the quality of advice they receive. The Team Performance programme ensures that administrative processes can be completed simply and quickly, allowing staff more time to dedicate to giving advice and selling. The programme was introduced at all Coop Vitality points of sale in 2015 and implemented at additional Amavita and Sun Store locations in 2016. The comprehensive range of health and beauty products is now available to customers outside opening times as well, thanks to the Sun Store, Amavita and Coop Vitality webshops. New insights into customer needs and behaviour are also expected from the presence of Coop Vitality on the online marketplace Siroop. Siroop is a start-up launched by Coop and Swisscom that allows providers from various sectors to sell their products online.

Team spirit is also taken very seriously when it comes to developing the next generation of talent. Based on the conviction that people who know each other are more committed to their work and colleagues, a three-day training camp for apprentices has been held for the past 15 years. The success of “Kuuqli” shows that this commitment is very much appreciated by young employees.

New health checks on offer

Coop Vitality pharmacies expanded the health check service offering with the GlutenCheck, while Sun Store pharmacies offered rapid allergy tests for the first time. There was also a high level of participation in the bowel cancer screening campaign launched by pharmaSuisse, with over 3,800 tests conducted in Amavita and Coop Vitality pharmacies. A further step towards eHealth was achieved in the form of the “Prescription Upload” pilot project at a Sun Store location in Lausanne. This allows customers to upload the scanned prescription to a platform and send it to the pharmacy of their choice electronically. The pharmacy receives the prescription by e-mail and can then prepare the medication, allowing waiting time to be kept to a minimum when it is collected. The service is currently offered at all Sun Store, Coop Vitality and Amavita pharmacies.

Vaccination service remains popular

The service for in-pharmacy vaccination without a medical prescription, introduced in 2015, was extended to additional cantons. Vaccination licences for pharmacists are issued by the cantons. The requirement remains that the pharmacist carrying out the immunisations has completed a five-day training course to attain the FPH certificate of competence in vaccination and blood collection. At present, vaccinations are possible in the cantons of Fribourg, Neuchâtel, Solothurn, Zurich, Grisons, St. Gallen, Schwyz, Thurgau, Schaffhausen, Basel-Land, Jura and Geneva. A pilot project for seasonal flu vaccinations in pharmacies was also launched in Bern, Vaud and Valais. A platform run by pharmaSuisse (www.impfapotheke.ch) shows the vaccination offering and location for all authorised pharmacies, including many Amavita and Coop Vitality locations.

CardioSnip – listening to the body

Working life has become more hectic. People work long hours, eat on the go and travel between time zones. Although there is an increasing trend towards a healthy lifestyle, such as eating little or no meat, avoiding tobacco and alcohol, or only consuming the latter in moderation, an increasing number of people are coming up against their limits. If the warning signals are not recognised in time, this can sometimes have serious consequences, such as heart attacks, stomach ulcers or burnout.

A small device can be helpful: CardioSnip is a new system that identifies signs of mental and physical overload, whereby an individual takes a series of ECGs (electrocardiograms) over a normal 24-hour day. CardioSnip is attached directly to the chest in the form of a patch, with no wires or other recording devices. Immediately after measurement, users can perform a simple evaluation using an app that identifies potential physical and mental overloads. The evaluation is based on a patented algorithm. The pilot phase was completed successfully in the fourth quarter of 2016, with the product scheduled for market launch in 2017. The device was developed by MediService and external partners and will be sold in Switzerland exclusively in Sun Store, Coop Vitality and Amavita pharmacies.

Own pharmacies and shareholdings

	31.12.2016	31.12.2015	Change
Amavita pharmacies ¹⁾	150	145	+ 5
Sun Store pharmacies ¹⁾	99	102	- 3
Coop Vitality pharmacies (Joint venture with Coop) ²⁾	69	64	+ 5
MediService specialty pharmacy ¹⁾	1	1	-
Majority holdings in other pharmacies ¹⁾	8	4	+ 4
Minority holdings in other pharmacies ²⁾	2	2	-
Total own points of sale	329	318	+ 11

¹⁾ Fully consolidated

²⁾ Consolidated at equity level

Independent partners

	31.12.2016	31.12.2015	Change
Amavita partnerships	9	12	- 3
Winconcept partner pharmacies	158	161	- 3
Total independent partners	167	173	- 6

15 years of Winconcept

Winconcept is a success story: as of 31 December 2016 the service provider offers marketing concepts focused on communication and quality to 158 stand-alone, independent pharmacies. From the quality management system and advisory services such as mystery shopping and customer surveys to staff training, the entire offering is designed to create value and reduce the workload of pharmacists.

The offering is marketed under the Feelgood's brand. The self-produced magazine Feelgood's News allows affiliated pharmacies to regularly inform their customers in German-speaking Switzerland, French-speaking Switzerland and Ticino about current medical and healthcare issues, while loyal customers are rewarded with a customer card and calendar.

A 15th anniversary celebration was held for 130 guests in October 2016. The guest speaker Adolf Ogi, former member of the Swiss Federal Council, praised light-heartedly the perseverance and achievements of Winconcept using the expression his father had always preached to him: "If you want to, then you can!"

"Team spirit is also taken very seriously when it comes to developing the next generation of talent. The success of 'Kuuqli', a three-day training camp for apprentices, shows that this commitment is very much appreciated by young employees."

Federal Council looking to give more powers to pharmacies

The decision by the Federal Council to give more powers to pharmacies in Switzerland has received widespread public attention. In October 2016, the Federal Council published a report that, for the first time, would make it possible for pharmacies, and not just general practitioners, to provide people with "simple and low-threshold access" to medical services. Pharmacies should also play a key role in preventative healthcare and the treatment of chronic diseases. However, this assumes a separate room in the pharmacy in which consultations can be held. While the recognition of pharmacies as the first point of contact for minor complaints is to be welcomed, further developments and decisions are still pending. The next step is for the Federation to scientifically supervise two pilot projects for children and chronically ill patients that will test new models for cooperation. The evaluation of the results is scheduled to be made available in 2018. Galenica Santé will also conduct a pilot project involving two pharmacies with extended medical services in 2017, one in German-speaking Switzerland and one in the French-speaking part of the country. The aim is to gather new information about customer needs in terms of basic medical care.

Promoting professionalism and quality

Demand for professional support from Winconcept remained strong in 2016. The greatest interest was in Process One, a lean quality management system for independent pharmacies that assists them in their planning without generating an excessive administrative burden.

The continuing education course CAS Management for Pharmacists, which was developed in collaboration with the University of Basel, is similarly dedicated to upholding quality standards. The two-year, part-time vocational course focuses on the topics of management, personnel management and business administration in pharmacies. An average of ten pharmacists attend the course, with 13 enrolled in the current, sixth, intake.

Centrally accessible knowledge and information

MediService made gains in expanding its various cooperative activities and niche programmes. After a successful pilot test at Sun Store in 2015, the switch was made in full in 2016, with centralised delivery of high-priced medicines now being carried out by MediService. This minimises risks such as incorrect orders or over-run expiry dates.

The introduction of SharePoint at the three pharmacy formats Amavita, Sun Store and Coop Vitality has resulted in a single communication platform. The web application simplifies cooperation, allows information to be exchanged quickly and easily, and also serves as a central file archive.

2016 saw the completion of the preparatory work for the introduction of TriaPharm® software at Coop Vitality. The application supports pharmacists in the areas of sales and order management, receipt of goods and inventory management, pricing and administrative support. The switch to TriaPharm® at Coop Vitality is scheduled for completion by the end of 2017.

Outlook: Growth both organically and through increased efficiency

The Retail Business sector continues to pursue its established strategy. Growth is to be achieved both organically, for example with new offerings and services, and through targeted acquisitions and new openings. Efficiency will also be improved by simplifying and harmonising processes, the systematic introduction of the pharmacy software TriaPharm® being one example of this. Standardised platforms make cooperation easier in the shared back office of the pharmacy formats, thereby creating added value for all. Appropriate measures also support efforts to maintain room for manoeuvre as regards future price reduction measures.

The pharmacy formats of the Retail Business sector

Amavita	Sun Store	Coop Vitality	MediService	Winconcept
<ul style="list-style-type: none"> - Largest pharmacy network in Switzerland. - Founded and managed by GaleniCare. - Product focus: prescription and non-prescription medicines and beauty products. - Points of sale in attractive public locations. - Strong customer focus (employee training, services, own-label brands). 	<ul style="list-style-type: none"> - First pharmacy chain in Switzerland, has belonged to Galenica since 2009 and is managed by GaleniCare. - Product focus: non-prescription medicines, beauty, wellness and health. - Larger-than-average retail space in places with high customer traffic such as shopping centres. 	<ul style="list-style-type: none"> - Joint venture between Coop and Galenica. - Located in larger Coop centres. - Comprehensive range in the fields of health, prevention and beauty combined with professional advice and services. 	<ul style="list-style-type: none"> - Specialty pharmacy for care of patients with chronic illnesses. - Home and Pharma Care therapy support service for in-home care of long-term patients, including specialist care and direct delivery of medications. 	<ul style="list-style-type: none"> - Service provider for autonomous and independent pharmacies. - Marketed under the Feelgood's brand. - Management and marketing concepts for members focusing on communication and quality.

Segment

Services

Services Business sector



Christoph Amstutz
Head Services Business sector

Dynamic sales growth

The Services segment made gains in both business volume and profitability in 2016. Net sales increased by 3.8% to CHF 2,328.9 million and earnings before interest and taxes (EBIT) rose disproportionately by 11.7% to CHF 41.4 million. Return on sales (ROS) could therefore be further increased to 1.8%. A milder flu season than last year was more than offset by gaining new customers and continuing range expansion, particularly in the cosmetics market. In-

creasing regulation, such as the now binding EU GDP Guidelines for Good Distribution Practice of Medicinal Products for Human Use, demands comprehensive solutions, which the Services segment is well-equipped to provide. Investments totalled CHF 20.2 million (previous year: CHF 26.9 million), related, among others, to the final construction phase of the Niederbipp distribution centre expansion.

Segment Services

Key figures 2016

- Net sales: CHF 2,328.9 million
- EBITDA: CHF 61.7 million
- EBIT: CHF 41.4 million
- ROS: 1.8%
- Investments: CHF 20.2 million
- Employees: 1,494
(1,234 full-time equivalents)

Net sales

in million CHF



Galenica Santé CHF 3,008.9 million

EBIT

in million CHF



Galenica Santé CHF 136.0 million

Services

Investment boost proving effective

“The Services Business sector operates successfully by applying the various components of pharmaceutical logistics in flexible and efficient modules for the benefit of its customers.”

Strategic priorities 2017

- Reinforce customer competitiveness with high-quality services and innovative offerings
- Bundle the competences as a wholesaler and in prewholesale for customers and suppliers
- Develop trend-setting eHealth offerings for the Swiss healthcare market
- Improve efficiency by further optimising processes

Greater capacity and efficiency at Galexis

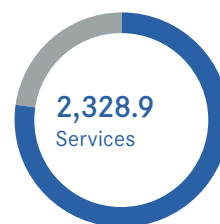
The Services Business sector comprises the logistics companies Galexis, Unione Farmaceutica Distribuzione, Alloga and Medifilm, as well as database and management solution provider HCI Solutions.

Galexis completed the expansion of the Niederbipp distribution centre in the year under review, thus increasing its capacity and efficiency. In the first instance, it now has space for an additional 6,100 items, expandable to 11,000 if required, allowing it to align its product range to the future needs of customers, particularly in the area of cosmetics. The additional capacity also means that on-trend assortments such as vegan products, smoothies and tattoo-related products (Tattoo-Med®) can be catered for.

Furthermore, the expansion ensures that the structural conditions for further efficiency gains are now in place, as a greater number of transport containers can be processed per hour and per day; the hourly throughput rate increased by more than 30% to 4,000 containers. At the same time, Galexis implemented a range of other projects to improve efficiency. New scheduling software, for example, automatically orders around 80% of products and medications from manufacturers and business partners, thereby optimising the warehouse inventory and significantly reducing the more than 50 deliveries made each day.

Net sales

in million CHF



Galenica Santé CHF 3,008.9 million

Number of employees



Galenica Santé 6,131

Stress testing the expansion in Niederbipp

More than 500 employees work in the Galexis logistics centre in Niederbipp. Work processes are clearly defined and operating processes run smoothly. In order to minimise issues following the commissioning of the expansion, Galexis performed a stress test involving all employees at the beginning of August 2016, including those not employed directly at the warehouse but with an office workstation, for example. Everyone was given the opportunity to put the distribution centre through its paces for a day, testing the picking process in the new manual picking warehouse. It was a day with a steep learning curve. Regular operations were resumed once the teething problems had been eliminated. Just as one of the five key values of Galenica states: Together, we are stronger!

“The expansion of the distribution centre in Niederbipp means that Galexis can serve new customers and offer new ranges, such as exclusive cosmetic or on-trend assortments.”

A new IT platform simplifies the ordering procedure for pharmacies. Finally, the new logistics centre enables all products to be transported automatically from arrival to the “pick zone” (the hub for picking), which cuts out multiple stages in the process.

An increasing number of options are open to pharmacists when it comes to medical treatment. Thanks to its expertise in medical technology, Galexis can also supply customers with the required infrastructure. In 2016, its specialised medical technology range “Focus”, which is offered at euro prices, was expanded with a comprehensive pharmacy range including vaccinations and CardioTests® in pharmacies.

In May 2016, Galenica submitted a takeover bid to the shareholders of the physician wholesaler Pharmapool. By the acceptance deadline at the end of August 2016, 100% of the shareholders of Pharmapool AG had accepted the purchase offer from Galexis, with the Competition Commission (COMCO) approving the acquisition without conditions or requirements at the end of December 2016. The acquisition of Pharmapool was thus completed at the beginning of January 2017 and will strengthen the logistics business of Galenica Santé.

Unione Farmaceutica Distribuzione expands webshop offering

Unione Farmaceutica Distribuzione (UFD) performed well in its home market of Ticino in 2016, while its webshop specialisation for third party customers, offered throughout Switzerland, also bore fruit. Logistics and IT are seamlessly linked, from ordering through the webshop to mailing.

UFD is also expediting the growth of the pharmacy management system pharma4.net, which HCI Solutions distributes to smaller pharmacies and drugstores in German-speaking and French-speaking Switzerland. This allows faster and more efficient processing of sales, as well as simplified stock management and invoicing.

Alloga ensures GDP compliance across all sales channels

The new European guidelines for Good Distribution Practice of Medicinal Products for Human Use (GDP) stipulate that medicines must be stored and shipped at temperatures of 15–25 °C. To this end, all 110 delivery vans operated by Galexis have been refitted and certified according to GDP, while the prewholesale company Alloga has developed a solution for postal deliveries in collaboration with a logistics partner. This involves shipping packages to doctors and smaller hospitals using temperature-controlled mini vans. As a result, Alloga has ensured GDP conformity across all of its sales channels.

“An increasing number of options are open to pharmacists when it comes to medical treatment. Galexis is there to support them.”

A further challenge to logistics is posed by a new class of cancer drug, for which a temperature of -80°C must be maintained throughout the entire supply chain. These drugs have been on the market since December 2016. In response, Alloga has established an ultra-deep freeze logistics system.

Medifilm simplifies ordering procedure

Medifilm continues to develop. In 2016, the pioneer in blister packaging of drugs for individual patients expanded its capacity at the existing site and is now able to serve up to 30,000 patients across Switzerland. The existing Mediproc software platform has been equipped for direct connection to nursing homes, thus simplifying the ordering procedure.

HCI Solutions assists hospitals with medication data

By introducing direct invoicing to health insurers, HCI Solutions has, at minimal cost, enhanced billing process quality for pharmacies working with TriaPharm®. In addition, digital vaccination records have been integrated into the TriaMed® and TriaPharm® systems.

The pilot project with the Cantonal Hospital of St. Gallen to simplify administration of the hospital's own medication data was a success and has since been expanded to several cantons and additional cantonal hospitals. Others are scheduled to follow. St. Gallen has also been selected for a further pilot project: every time a medication is dispensed at its cantonal hospital, the newly-installed software application checks whether this is actually suitable for the patient in question or whether there are contraindications.

In December 2016, the rights to TriaMed® practice software were sold to Swisscom Health. HCI Solutions will thereby focus on information logistics, knowledge databases and developing software tools to improve the medication process and provide the basis for clinical decisions. It will also continue to run TriaPharm®, a software for pharmacy chains, individual pharmacies and drugstores.

Investments to increase capacity, efficiency and ecology

Population growth and longer life expectancy are likely to remain two of the defining trends in the Swiss healthcare market in future, as is cost pressure. The price assessment, which is expected for the end of 2017, will certainly lead to the next round of government-mandated price reductions for medications.

Key figures Wholesale/Prewholesale 2016

	Wholesale: Galexis, Unione Farmaceutica Distribuzione	Prewholesale: Alloga
Storage		
- Number of prepared boxes	> 8,010,000	—
- Number of delivered order lines	> 37,654,000	> 1,939,000
- Number of prepared packages	> 118,192,000	> 90,066,000
Distribution		
- Annual tonnage	> 15,138	> 7,775
- Number of postal packages	> 98,295	> 524,000
- Number of pallets	—	> 64,674
Structure		
- Number of items in stock	> 45,000	> 9,560
- Number of suppliers/partners	> 1,200	> 75
- Number of points of sale supplied	> 9,000	> 13,150
Technology		
- Degree of automation in Niederbipp	70%	—
- Degree of automation in Lausanne-Ecublens	29%	—
- Degree of automation in Barbengo-Lugano	47%	—
- Degree of automation in Burgdorf	—	36.5%

“Alloga intends to invest in the building infrastructure on the Burgdorf site.

The cold room is due to be expanded and linked directly to incoming goods and dispatch via ‘direct docking’.”

The Services Business sector is prepared to operate successfully in this environment with its services and offerings and to apply the various components of pharmaceutical logistics in flexible and efficient modules for the benefit of its customers.

As of 2017, a key priority will be replacement of the current Alloga and Galexis ERP (Enterprise Resource Planning) systems. The software provider has been selected and the next stage is the implementation at Alloga.

Galexis intends to use the expanded logistics platform to extend its offering, for example with the Switzerland-wide exclusive distribution of cosmetics, additional medical technology products for pharmacies and new ranges in the areas of homeopathy and chemicals. In addition, Galexis is planning to introduce an end-to-end supply chain including room temperature returns logistics based on the solution offered by Alloga.

Alloga intends to invest in the building infrastructure of the Burgdorf site. The cold room is due to be expanded and linked directly to incoming goods and dispatch via “direct docking”. The roof is also set to be renovated. As part of the initial expansion, one of the largest photovoltaic systems in Switzerland is due to be installed over an area of 10,000m².

The companies of the Services Business sector

Galexis	Unione Farmaceutica Distribuzione	Alloga	Medifilm	HCI Solutions
<ul style="list-style-type: none"> – Market leader in Swiss healthcare logistics. – Distribution centres in Niederbipp and Lausanne-Ecublens. – Comprehensive product and service offerings. – Supplies pharmacies, medical practices, drugstores, nursing homes and hospitals. 	<ul style="list-style-type: none"> – Leading pharmaceutical wholesaler and the only full-range supplier in Ticino. – Distribution centre in Barbengo-Lugano with strong regional roots. – Supplies pharmacies, drugstores, nursing homes and hospitals. 	<ul style="list-style-type: none"> – Largest Swiss pre-wholesaler. – Logistics centre in Burgdorf. – Modular, process-managed full-service offering along the entire supply chain. – Logistics services in partnership with the pharmaceutical and healthcare industry. 	<ul style="list-style-type: none"> – Swiss pioneer in the area of blister packaging of drugs for individual patients with wholesaling and manufacturing licence. – Customers include pharmacies and nursing homes supplied with pharmaceuticals. 	<ul style="list-style-type: none"> – TriaMed[®] ¹⁾ and TriaPharm[®] comprehensive database. – Develops management solutions for pharmacies as well as tools to securely manage, communicate and distribute sensitive health data.

¹⁾ Rights sold to Swisscom Health at the end of 2016



With its distribution centres in **Niederbipp** and **Lausanne-Ecublens** and a wide range of products and services, **Galexis** is the ideal partner for pharmacies, medical practices, drugstores, nursing homes and hospitals.

Maximum safety when dispensing medication

Patient safety is the top priority for Galenica Santé pharmacies. To ensure this, GaleniCare takes appropriate measures concerning processes, infrastructure, and training and development. The cornerstone is an outstanding quality management system, which supports employees in their day-to-day work.

The Amavita pharmacy on Bahnhofstrasse in Zurich is extremely busy at lunchtime. Two pharmacy assistants behind the counter are there to advise customers. The range in winter features cold and flu medications. A new customer comes into the pharmacy, is welcomed by a pharmacy assistant and asked what he needs. He would like a headache tablet. The pharmacy assistant asks whether the medication is for him. He nods. She also wants to know whether he is taking any other medications. He answers no. She then asks how long he has had the headache and whether he has any questions about the product. He replies he's had it for a few hours and does not have any other questions. She takes the medication off the shelf, scans it and asks whether the customer would like the dosage instructions in writing. He says yes, and the pharmacy assistant creates a personalised dosage label with the help

of his Amavita customer card. The label includes the patient's name, the intended use of the medication and information on how it should be taken. It also shows the pharmacy name and phone number. The pharmacy assistant explains the dosage instructions verbally to the patient and asks him if he would like anything else. The customer makes additional purchases. Before dispensing the medication to the customer, the pharmacy assistant again checks the medication name, strength, dosage form, pack size and dosage instructions. She then tells the customer that the pharmacy team would be happy to answer any questions he might have during or after treatment. She says goodbye and tells the customer she hopes he feels better soon. ▶



► Uniform processes ensure safety

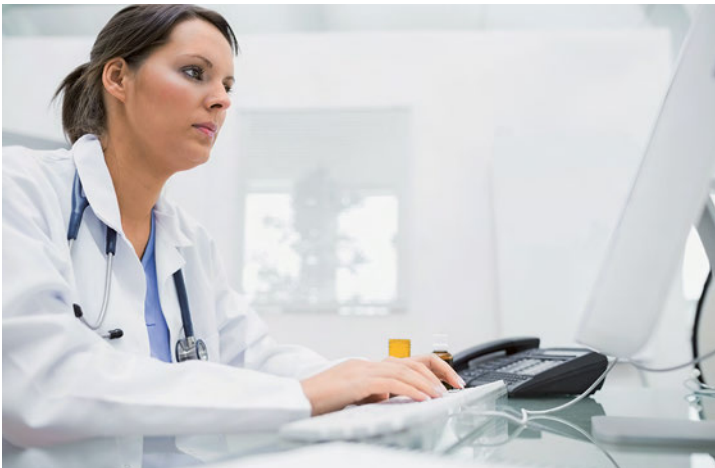
This sales situation for a non-prescription medicine – known as an OTC sale, requested by a customer – is described in detail in the quality management system (QMS) of GaleniCare, the management company for the pharmacy formats of Galenica. The document details exactly what steps must be taken by pharmacy assistants and pharmacists to ensure that the medication helps the patient as quickly as possible without posing a risk to his or her health. GaleniCare’s quality management includes more than 100 standard operating procedures (SOPs) of this nature for most activities in the area of pharmaceutical production and dispensing, as well as on data protection and duty of confidentiality, hygiene (for example when taking blood) and medicine

disposal. “The SOPs are available for all of our roughly 330 pharmacies in French, German and Italian, and comply with legal requirements”, explains specialist pharmacist Daniel Hugentobler, who is responsible for quality management at GaleniCare.

Safe purchase, storage and production of pharmaceuticals

Patient health and medication safety are the top priority for staff in the pharmacies. The SOPs help them to ensure this safety. GaleniCare regularly checks compliance with the SOPs in individual pharmacies. In addition to an announced audit every three years, anonymous mystery shopper purchases and calls are made three times per year to check that the SOPs are being observed.

Further drug safety and patient protection measures concern drug purchasing, storage and production, and therefore also the infrastructure. “All pharmacies purchase medicines exclusively from government-certified and -approved suppliers, including the logistics companies of Galenica Santé: Galexis and Unione Farmaceutica Distribuzione”, stresses Hugentobler. Producing pharmaceuticals in-house requires a cantonal licence, with strict legal requirements. “The SOPs contain clear rules on producing pharmaceuticals and what should be included on the label. We not only check compliance with the regulations, but also the equipment required for production”, he adds. When storing medicines, the pharmacist has to follow the statutory requirements regarding room or refrigerator temperature precisely. In addition, most pharmacies have a consultation room where the pharmacist can talk to the customer discreetly about health problems and medication. This room is essential for consultations when dispensing the morning-after pill, for example. In the area of infrastructure, additional key safety aspects include a modern IT system and appropriate building services with regards heating, ventilation and air conditioning.



eHealth – digitisation of healthcare

Swiss citizens have become more mobile in recent years. It is increasingly commonplace to change canton of residence, health insurer or doctor, and to travel abroad. As a result, key information regarding a patient’s medical history is often missing when needed. New technologies offer new solutions to ensure patient safety. In 2007, the Federal Council approved the eHealth strategy, which is designed to guarantee efficient, safe and cost-effective healthcare throughout Switzerland. As part of this strategy, the Federal Act on the Electronic Patient Record (EPRA) was drawn up. The Act, which regulates the introduction, dissemination and development of patient records, enters into force in 2017 giving everyone in Switzerland the option of making their medical data accessible to medical professionals via an electronic patient record, so that the data are available at all times, anywhere. This means that patients can receive better quality, safer and more efficient treatment. Initially, the Act requires the introduction of electronic patient records only for in-patient facilities such as hospitals and care homes.

Promoting employees' specialist competence

GaleniCare offers pharmacy employees various training and further education courses to expand their knowledge and keep it up to date. "We hold courses in German and French eight times a year on the GaleniCare QMS and the legal bases for protecting patient safety. These one-day courses include practical exercises and discussions about patient-oriented solutions", says Hugentobler. "We check the qualifications of all new recruits and decide whether they need to attend the courses. For additional pharmacy services such as CardioTest® or AllergyCheck, employees complete certified courses offered by the training and further education department of GaleniCare", says Hugentobler, adding: "In 2016, more than 1,000 pharmacy assistants and pharmacists attended our courses. The subject of quality management and patient safety is also central in the basic training of pharmacy assistants. Every year, some 200 apprentices in our pharmacies complete the training to become a pharmacy assistant."

GaleniCare QMS held in high regard

Winconcept, the service provider for autonomous and independent pharmacies, has also been offering the QMS for independent pharmacies under the name "Process One" since 2015. More than 50 partner pharmacies currently use the system. The largest Swiss health insurer is also convinced by GaleniCare's QMS. "We developed a quality label together with CSS Versicherung that identifies pharmacies with particularly good performance in the areas of patient service and professional advice. The aim is to noticeably improve quality for customers. Some 200 GaleniCare pharmacies have performed better than average and were able to display the quality sticker in their pharmacy", Hugentobler says proudly, adding that the GaleniCare QMS is also officially recognised by a cantonal authority.

Electronic patient record further improves safety



For HCI Solutions in particular, which has longstanding experience in the area of databases and management solutions, the development in the eHealth field represents a considerable opportunity: "Through our networked software and database products, we support smooth collaboration with the various service providers and thereby contribute to improve safety when dispensing medicines", explains Ulrich Schaefer, Head HCI Solutions. "The electronic patient record in particular makes an important contribution to protecting patients' health", he adds. HCI Solutions develops software for electronic medication dispensing, based on the needs of service providers and patients. All relevant information on medicines, dosage instructions and other important patient information can be recorded in it digitally.

Patrick Mathieu from the Sun Store pharmacy in Versoix (Geneva) says: "Thanks to this information, we can see straightaway whether the patient is taking any other medication that could cause a negative interaction. This gives us the opportunity to consider alternatives or determine a more appropriate dosage." All Amavita and Sun Store pharmacies can access a customer's patient record. In Schaefer's words: "If, for example, a customer leaves a prescription at their Sun Store pharmacy in St. Gallen and forgets to take it with them when they go on a skiing holiday in Valais, they can still collect their medication from the Sun Store pharmacy in Zermatt." A patient record can only be created with the agreement of the customer. In addition, all employees have a duty of confidentiality under the Swiss Criminal Code.

Corporate Governance



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Galenica is committed to the principles of Corporate Governance. Galenica meets the requirements of Swiss law and those stated in the Directive of the SIX Swiss Exchange on Information Relating to Corporate Governance. It also follows the recommendations of the Swiss Code of Best Practice for Corporate Governance of *economiesuisse*. The remuneration and profit-sharing for top management are disclosed in a separate Remuneration Report.

Group structure and shareholders

Structure of the Group

Galenica Ltd., headquartered at Untermattweg 8, CH-3027 Bern, Switzerland, is a corporation under Swiss law. As a holding company, Galenica Ltd. owns all the companies in the Galenica Group directly or indirectly. The Group's structure and the consolidated subsidiaries and associates are shown in the financial statements 2016 on pages 165 and 166 respectively. The addresses of the main Group companies are listed beginning on page 188. The Articles of Association of Galenica, the Organisational Regulations as well as the Charters of the Committees of the Board of Directors can be accessed at www.galenica.com.

The shares of Galenica Ltd. are listed on the SIX Swiss Exchange; shares of individual Group companies are not publicly traded.

Shareholders

On 31 December 2016, Galenica had 10,838 shareholders, five of which, according to documents submitted to Galenica Ltd. and the SIX Swiss Exchange, were major shareholders holding more than 3% of the voting rights in Galenica Ltd.:

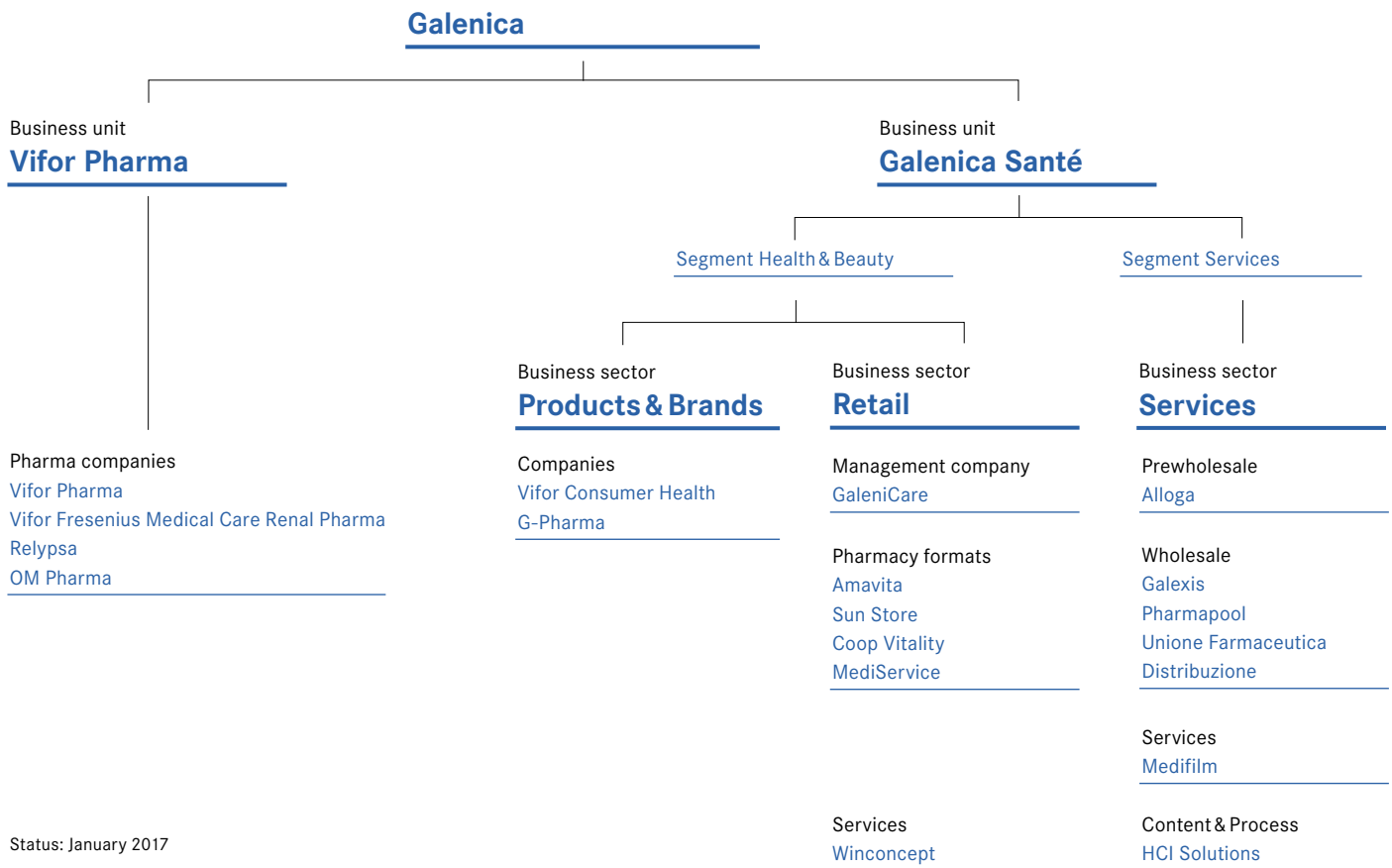
Sprint Investments 2 GmbH, Ostermündigen, Switzerland, (beneficial owners: Stefano Pessina, Monaco, and Kohlberg Kravis Roberts & Co. L.P., New York, USA) with 626,172 registered shares.

Patinex AG, Freienbach, Switzerland, and BZ Bank Aktiengesellschaft, Freienbach, Switzerland, (beneficial owners: Martin and Rosmarie Ebner, Wilen) with 1,122,351 registered shares. Of these shares, 325,000 are registered in accordance with the Articles of Association with voting rights.

Alecta pensionsförsäkring, ömsesidigt, Stockholm, Sweden, with 210,000 registered shares.

BNP PARIBAS SA, Paris, France, 215,249 shares – this is a temporary bond to be repaid on 7 February 2017.

Priora Projekt AG, Chur, Switzerland, Immoport AG, Chur, VV Value Vals AG, Vals, Switzerland, and Kodiak Invest AG, Chur (beneficial owners: Remo and Manuela Stoffel, Chur), with 534,500 registered shares.

Structure of the Galenica Group

No other shareholder has announced a crossing of the 3% threshold of registered shares.

The transactions disclosed to the stock exchange Disclosure Office pursuant to Art. 20 of the Stock Exchange Act can be viewed on the Disclosure Office website of the SIX Swiss Exchange:

www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Cross shareholdings

Galenica Ltd. has no cross shareholdings in companies outside the Galenica Group.

Events after the balance sheet date

Since the reporting date Sprint Investments 2 GmbH has notified the company and SIX Swiss Exchange that it holds less than 3% of the voting rights in Galenica Ltd. There are no other changes to report.

Structure of the share capital**Share capital**

On 31 December 2016, the fully paid share capital of Galenica amounted to CHF 650,000, divided into 6,500,000 publicly listed registered shares with a nominal value of CHF 0.10 each.

Galenica shares (securities no. 1553646) are listed on the SIX Swiss Exchange. As of 31 December 2016, 6,477,034 registered shares were outstanding (not including treasury shares). The market capitalisation amounted to CHF 7,442,112,066.

Authorised capital

According to Art. 3a of the Articles of Association, the Board of Directors is authorised to increase the share capital of CHF 650,000 by a maximum of CHF 65,000 at any time up to and including 28 April 2018 by issuing no more than 650,000 fully paid registered shares.

Conditional capital

Galenica has no conditional capital.

Changes in the capital in the last years

Information about changes in the share capital, reserves and distributable profit over the past few years can be found on page 177 of the financial statements 2016. Please see previous annual reports for information about prior years.

Participation certificates

Galenica has no participation certificates.

Dividend certificates

Galenica has not issued any dividend certificates.

Registration of shareholders and limitations upon transferability

The transfer of registered shares requires the authorisation of the Board of Directors, who may delegate this responsibility. The

transfer is granted if the buyer discloses its identity and confirms that the shares are being acquired in its own name and for its own account.

Registration and voting rights

Each registered share entitles the holder to one vote at the Annual General Meeting. Pursuant to Art. 6 of the Articles of Association, voting rights at Galenica are restricted to 5% of the share capital.

Legal entities and partnerships, other groups of persons or joint owners who are interrelated through capital ownership, voting rights, common management or are otherwise linked, as well as individuals or legal entities or partnerships that act in concert to circumvent this provision, shall be treated as one single entity.

The Board of Directors may refuse registration in the shareholders' register if purchasers do not declare explicitly, upon request, that they have acquired the shares in their own name and for their own account. The Board of Directors is also authorised, after hearing the individuals concerned, to cancel any entries in the shareholders' register that were obtained on the basis of incorrect information.

The Board of Directors may approve exceptions to the voting rights restrictions in order to permit the participation of strategic partners in Galenica Ltd., in an amount not exceeding 20% of the share capital. The Board has already exercised this right in connection with Sprint Investments 2 GmbH (previously Alliance Boots Investments 2 GmbH).

In order to guarantee vested rights, the Articles of Association allow the pension funds of the companies in the Galenica Group to be registered as shareholders with voting rights in an amount not exceeding 10% of all shares with voting rights. As of 31 December 2016, the pension funds were registered with 0.09%.

Within the scope of a change in the Articles of Association, the Annual General Meeting may pass, by a relative majority, a resolution to approve exceptions to the percentage limits. At least half of all shares entered in the commercial register must be represented in order for such a resolution to be legally binding. The applicant has a

right of submission at the Annual General Meeting. No applications for exceptions were submitted during the financial year 2016.

Registration of nominees

A nominee may be registered with voting rights up to a limit of 2% of the share capital entered in the commercial register. Shares in excess of this limit can only be registered if the nominee in question discloses the name, address and number of shares of the person for whose account the nominee holds 0.5% or more of the share capital entered in the commercial register. During the financial year 2016, agreements of this nature were signed with two nominees.

Convertible bonds and options

Galenica has no outstanding convertible bonds, nor has it issued any traded options.

The Board of Directors

The Board of Directors of Galenica Ltd. determines the strategic goals, the general ways and means to achieve them while harmonising strategy, risks and financial resources, and appoints and oversees the managers responsible for conducting the company's businesses. It also designs the company's corporate governance profile and puts it into practice.

The duties of the Board of Directors of Galenica Ltd. are based on the Swiss Code of Obligations, the company's Articles of Association and its Organisational Regulations. Pursuant to the Articles of Association, the Board of Directors consists of a minimum of five and a maximum of twelve members. It consisted of nine members as of the end of 2016.

In selecting the members of the Board of Directors, care is taken to ensure that competency for each area of the Galenica Group's activities is represented by at least one member, if possible, and that the necessary specialised expertise is also available. The Board of Directors reviews its functional effectiveness once a year.

The Articles of Association of Galenica Ltd. restrict the ability of its directors to act in the board or senior management of other

profit-oriented companies, limiting such outside board activity to five mandates in listed and seven mandates in non-listed companies. None of the members has reached the limit.

With the exception of the Executive Chairman, none of the members of the Galenica Board of Directors performed an operational management function at Galenica or any of the companies in the Group in the year under review or at any time during the previous three years.

Disclosure of potential conflicts of interest: No member of the Galenica Board of Directors has any significant relations with Galenica or any of its subsidiaries. Stefano Pessina represents Sprint Investments 2 GmbH, which is a shareholder of Galenica.

Election and term of office

Each member of the Board of Directors, its Chairman, each member of the Remuneration Committee as well as the independent proxy are elected individually by the Annual General Meeting for a term of office of one year, i. e. from one Annual General Meeting to the end of the next. Members may be re-elected. The Articles of Association do not stipulate a limit regarding terms of office. Elections are held separately for each Board member being elected.

The Board of Directors and its committees in 2016

The Board of Directors is made up of the Executive Chairman, one or more Vice-Chairmen and the other members. The Board of Directors forms the following committees from its members:

- Governance and Nomination Committee
- Remuneration Committee
- Audit and Risk Committee
- Scientific and Pharma Committee
- Swiss Healthcare Committee

Each committee has its own charter setting out its duties and responsibilities. The committee charters are published on the Galenica website (www.galenica.com).

Committees and their chairmen and members 2016

	Board member since	Governance and Nomination Committee	Remuneration Committee	Audit and Risk Committee	Scientific and Pharma Committee	Swiss Healthcare Committee
Etienne Jornod	1996	Chairman			Member	Chairman
Daniela Bosshardt-Hengartner	2008		Chairman		Member	Member
Michel Burnier	2010		Member		Chairman	Member
Romeo Cerutti	2015	Member		Member		
Marc de Garidel	2015			Chairman ²⁾	Member	
Hans Peter Frick ¹⁾	2010			Chairman		
Sylvie Grégoire	2013				Member	
Fritz Hirsbrunner	2012			Member		Member
Stefano Pessina	2000					
This E. Schneider	2004	Member	Member	Member		Member
Number of meetings 2016		3	7	10	4	4

¹⁾ Until the Annual General Meeting 2016

²⁾ Since the Annual General Meeting 2016

Internal organisation

The Board of Directors may pass binding resolutions for the company with respect to all matters that are not expressly reserved for the authority of the Annual General Meeting either by law or the Articles of Association.

The Executive Chairman calls a meeting of the Board of Directors at least once a quarter, prepares and leads the meetings. The individual agenda items are set by the Executive Chairman. He decides on a case-by-case basis whether to involve additional persons in the consultations of the Board of Directors. The Corporate Executive Committee usually participates at least in part of every meeting to report on ongoing business and to explain in more detail the documentation in light of the decisions to be taken. Any member of the Board may propose, in writing, items to be included in the agenda, or may request that a meeting of the Board of Directors be convened, briefly giving reasons for doing so. The members of the Board receive the documentation they need to prepare for the agenda items in a timely manner, normally at least ten days before the meeting in question. Decisions are made by the entire Board of Directors. Minutes of the meeting are kept, recording all discussions and resolutions.

The Executive Chairman, in consultation with the CEOs, represents the interests of the Group towards third parties in important matters.

In 2016, the Board of Directors held thirteen meetings. In addition to meetings and the associated flow of information (documentation on individual agenda items, reports), the Board of Directors is also informed on a regular basis about the Group's activities and challenges, as well as the current state and general development of the Business sectors. Furthermore, the Board of Directors is often consulted by the Corporate Executive Committee in its role as advisory body.

As part of its risk management, the Board of Directors receives from the Corporate Executive Committee an overview of the most important risks, along with preventive measures to be implemented Group-wide as part of the risk management process. It evaluates and takes decisions on this overview of risks and measures, which is provided when circumstances require it, but at least once a year. Further information on this topic can be found on page 74.

Committees

The committees prepare the business of the Board of Directors in the areas of activity assigned to them and submit recommendations to the entire Board of Directors. Except for the Remuneration Committee, the committees have no decision-making authority of their own. They meet as often as business requires and report to the Board of Directors on activities and results. They draw up their own agendas and keep minutes of meetings.

Each committee has its own charter governing its duties and responsibilities.

Governance and Nomination Committee

The Governance and Nomination Committee ensures the management and monitoring of the Group's business activities by the Board of Directors (overall management and ultimate supervision pursuant to Art. 716a of the Swiss Code of Obligations). In addition, the Governance and Nomination Committee has the following duties in particular:

- Develops the values, short- and long-term objectives and strategy of the Group in close cooperation with the CEOs for submission to the Board of Directors;
- Takes provisional decisions and intervenes in urgent cases where a decision of the Board of Directors cannot be obtained in a timely manner;
- Draws up selection criteria for the nomination of members of the Board of Directors, Committees and Corporate Executive Committee, and reviews the relevant succession plans;
- Evaluates and makes proposals for the appointment and dismissal of members of the Board of Directors, committees and Corporate Executive Committee (including the CEOs).

Remuneration Committee

The Remuneration Committee is made up of three members, who must be independent. The Remuneration Committee carries out the following duties in particular:

- Proposes a remuneration strategy for the Group and the members of the Corporate Executive Committee to the Board of Directors;
- Proposes to the Board of Directors the salaries and remuneration for the members of the Board of Directors and the committees as well as the CEOs;
- Decides on the remuneration for the members of the Corporate Executive Committee within the scope of the guidelines adopted by the Annual General Meeting.

Audit and Risk Committee

The Audit and Risk Committee carries out the following duties in particular:

- Verifies compliance with internal and external regulations by carrying out random checks;
- Checks the performance and independence of the external auditor and approves its fees;
- Evaluates and submits its nomination for external auditor to the Board of Directors for the Annual General Meeting;
- Reviews together with the external auditors the scope and method of the audit;
- Defines the internal audit programmes, including compliance and IT security, and checks the audit reports and the status reports on the implementation of measures;
- Analyses at least once a year the scope of internal control systems, the auditing projects and processes affected, the results of internal audits and the implementation of recommendations by the Corporate Executive Committee;
- Reviews with the external auditors the Group's compliance with accounting policies and standards;
- Assesses the organisation of risk management processes;
- Reviews, if necessary together with the external auditors, the risks that could affect the Group's result and the measures planned for reducing those risks;

- Issues new guidelines, instructions or clarifications in connection with the Code of Conduct;
- Assesses the financial structure, the development of investments and acquisitions, and the influence of currency fluctuations and measures to be taken;
- Monitors the Group's financial situation and financial controls;
- Receives regular information from the Corporate Executive Committee concerning major changes that could affect the Group's financial situation.

Scientific and Pharma Committee

The Scientific and Pharma Committee acts as an advisory body to the Executive Chairman and the Board of Directors in matters of R & D strategy for the Group, innovation process, innovation pipeline, protection of intellectual property and in the assessment, selection and prioritisation of target markets and therapeutic fields.

It also gives its view on acquisitions and proposals aimed at strengthening the technology base of the Group or accelerating market penetration.

Swiss Healthcare Committee

The Swiss Healthcare Committee acts as an advisory body to the Executive Chairman and the Board of Directors in matters concerning the market for healthcare services in Switzerland, in particular the provision of medical products, services and information to pharmacists and other healthcare professionals, the assessment, selection and prioritisation of target markets, and the optimisation of logistics processes.

It also gives its view on mergers and acquisitions and divestiture projects of its points of sale aimed at strengthening market penetration and efficiency.

Frequency of meetings of the Board of Directors and its committees in 2016

In 2016, the Board of Directors held thirteen meetings, together with members of the Corporate Executive Committee. The Governance and Nomination Committee met three times, the Remuneration Committee seven times and the Audit and Risk

Committee ten times. The Scientific and Pharma Committee met four, and the Swiss Healthcare Committee met four times. In principle all the members participate in all the meetings of the Board of Directors. Excluding absences to avoid conflicts of interest, the members participated in more than 97% of all meetings. Outside the official meetings the members of the Board of Directors also exchanged their views with other members and the Executive Chairman in numerous telephone conferences. The allocation of tasks among the committees is described starting from page 65 of this report.

Management and areas of responsibility

The Board of Directors is legally responsible for the overall management and ultimate supervision of the Group. It has the duties provided for under Art.716a para.1 of the Swiss Code of Obligations; it cannot be deprived of these duties, nor can it delegate them. In addition, it may pass resolutions with respect to all matters that are not reserved for the authority of the Annual General Meeting either by law or the Articles of Association. In particular, the Board of Directors is responsible for approving or passing resolutions on:

- The values, objectives and strategy of the Group;
- The essential framework of the company's activities;
- The Group's planning, budget and projections;
- Selection and deselection of the members of the Committees, the CEOs and the members of the Corporate Executive Committee;
- The organisation of the remuneration system.

The Board of Directors has delegated the management of the company in accordance with the Organisational Regulations. Etienne Jornod serves as Executive Chairman and has certain clearly defined oper-

continued on page 72 ►

Members of the Board of Directors



Etienne Jornod, Executive Chairman, elected since 1996

- Born 1953, Swiss citizen
- Lic. oec., HEC University of Lausanne/Senior Executive Program, Stanford University (USA)
- Joined the Group in 1975 as a Junior Product Manager; left the Group in 1978; returned in 1981 (after obtaining a university degree) as Assistant to the Corporate Executive Committee; joined the Corporate Executive Committee in 1989; Chairman of the Board of Directors and CEO of Galenica from 1996 to 2011; Executive Chairman since 2012
- Chairman of the Board of Directors of the Aktiengesellschaft für die Neue Zürcher Zeitung (Zurich) and member of the Board of Directors of Vaudoise Assurances Holding SA (Lausanne)



Daniela Bosshardt-Hengartner, elected since 2008

- Born 1972, Swiss citizen
- Pharmacist, Federal Diploma in Pharmacy, Federal Institute of Technology, Zurich
- Financial analyst at Bank am Bellevue (1998-2002) and M2 Capital (2003-2004)
- Management consultant in the pharmaceutical, medical technology and biotechnology sectors since 2004
- Member of the Board of Directors of RepRisk AG (Zurich)



Prof. Dr. Michel Burnier, elected since 2010

- Born 1953, Swiss citizen
- Swiss-registered Doctor of Internal Medicine and Nephrology
- University Lecturer, University of Lausanne
- Formerly a member of the Medicines Committee of the Swiss Association of Pharmacists (until 2001), the Board of Swissmedic (2002-2010) and the Board of Directors of Speedel Holding Ltd. (2007-2009)
- Member of the following organisations: Swiss Society of Nephrology (former President), Scientific Council of the European Society of Hypertension (Treasurer) and Swiss Society of Hypertension (former President)



Dr. Romeo Cerutti, elected since 2015

- Born 1962, Swiss and Italian citizen
- Doctor of Law, Law studies at the University of Fribourg, Switzerland; Master of Laws from the University of California, School of Law, Los Angeles
- Attorney-at-law with Latham and Watkins (1993-1995) and Homburger Rechtsanwälte (1995-1999)
- Head of Corporate Finance at Lombard Odier Darier Hentsch & Cie (1999-2006) and partner of the Group Holding of Lombard Odier Darier Hentsch & Cie (2004-2006)
- General Counsel of the Private Banking division of Credit Suisse (2006-2009)
- General Counsel and a member of the Executive Board of Credit Suisse Group Ltd. and Credit Suisse Ltd. since April 2009
- Member of the Board of Trustees of the Swiss Finance Institute (SFI) since 2016
- Member of the Board of the Zürcher Handelskammer since 2016
- Vice-President of the Board of Directors of the Savoy Hotel Baur en Ville AG since 2016



Marc de Garidel, elected since 2015

- Born 1958, French citizen
- Master in Engineering, Ecole Supérieure des Travaux Publics, Paris; Master in International Management, Thunderbird School of Management, Phoenix (USA); Executive Master in Business Administration, Harvard University, Boston (USA)
- Various positions at Lilly, most recently as Finance Director Germany (1983-1995)
- Various positions at Amgen, including Vice-President Finance and Administration Europe, Vice-President and Chief Administration Officer, and General Manager for France and Vice-President of the South International Region (1995-2010)
- Since 2010 Chairman of the Board of Directors and CEO of Ipsen



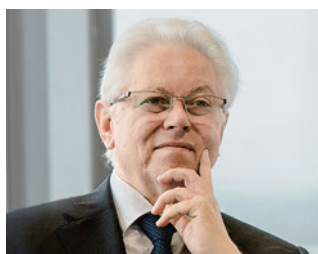
Dr. Sylvie Grégoire, elected since 2013

- Born 1961, Canadian and US citizen
- Dr. pharm., State University of New York in Buffalo (NY/USA), pharmacy degree from Université Laval, Quebec City (Canada)
- Formerly President of Shire Human Genetic Therapies (2007–2013), worked in various roles at companies including Merck & Company (1987–1995), Biogen Inc. (1995–2003), GlycoFi Inc. (2004–2005) and IDM Pharma (2006–2007)
- Advisor to venture capital and biotech companies
- Former member of the Boards of Directors of various companies in the USA and Canada, and the boards of various charitable organisations
- Member of the Board of Directors of Novo Nordisk and PerkinElmer Inc. since 2015
- Chair of the Board of Directors of Corvidia Therapeutics, Inc. since 2016
- President of the Board of Directors of MetrioPharm AG since 2016



Fritz Hirsbrunner, elected since 2012

- Born 1949, Swiss citizen
- Lic. oec., HEC University of Lausanne/Senior Executive Program, IMD, Lausanne
- 1972–1977 Controller at Ciba-Geigy
- Joined the Galenica Group in 1977 as Assistant to the Corporate Executive Committee; member of the Corporate Executive Committee from 1992 to 2011; Deputy CEO and CFO; Head Investor Relations until February 2014
- Member of the Board of Directors of Berlac AG, Sissach, and IVF Hartmann Holding AG, Neuhausen
- Member of the Board of Trustees of IST Investmentstiftung, Zurich
- Member of the Board of Directors of VenCap 6 Ltd., Jersey



Stefano Pessina, elected since 2000

- Born 1941, citizen of Monaco
- Nuclear engineering degree, Milan Polytechnic
- Former management consultant, active as an entrepreneur in various pharmaceutical distribution companies since 1976; became Deputy Chairman in 1997, and CEO between 2001 and 2006 of Alliance UniChem Plc, Weybridge (UK); since 2007 Executive Chairman of Alliance Boots, London (UK) and Executive Vice Chairman of the Board and Chief Executive Officer of Walgreens Boots Alliance, Inc., having been appointed to the Board of Walgreens in 2012



This E. Schneider, Vice-Chairman, elected since 2004

- Born 1952, Swiss citizen
- Lic. oec., HSG University of St. Gallen/Graduate School of Business, Stanford University (USA)
- Previously held various managerial positions in Europe and in the USA, at SAFAA (1991–1993), Valora (1994–1997) and Selecta Group (1997–2002). From 2004 until March 2014, Delegate of the Board of Directors and CEO of Forbo International AG, Baar, since April 2014 Executive Chairman of Forbo International AG, Baar
- Rieter Holding AG, Winterthur (Vice-Chairman of the Board of Directors), Antoneum Holding AG, Winterthur (member of the Board of Directors)

Dr. Hans Peter Frick, member of the Board of Directors since 2010, no longer stood for election as a member of the Board of Directors at the Annual General Meeting on 28 April 2016.

Members of the Corporate Executive Committee



Dr. Jörg Kneubühler, CEO Galenica Santé

- Born 1960, Swiss citizen
- Dr. rer. pol., University of Bern
- Held various positions in finance at the Swatch Group before joining Galenica
- Joined the Group in 2002 as Head of Finance and Administration at Vifor Pharma; Head of Controlling for the Galenica Group as of 2006; Head Corporate Finance and Controlling for the Galenica Group and member of the Corporate Executive Committee since 2009; CFO since 2012 and Head Human Resources from 2012 until August 2014; from 2014 until end of 2016 CFO Galenica Group and CEO Galenica Santé; CEO Galenica Santé from 2017



Felix Burkhard, CFO of the Galenica Group and Galenica Santé

- Born 1966, Swiss citizen
- Lic. oec., HSG University of St. Gallen (HSG), and Swiss certified accountant
- Financial Auditor at Revisuisse PriceWaterhouse, Bern, and Head of Finance and Controlling at Amidro, Biel-Bienne, before joining the Group
- Joined the Group in 1996 as Corporate Controller; Deputy Head Retail Business sector from 2000; in addition, Head of the Amavita pharmacy chain from 2008; Head Retail Business sector from 2010 to 2015; member of the Corporate Executive Committee since 2010; since 2015 Head Strategic Projects; from 2017 CFO Galenica Group and Galenica Santé



Jean-Claude Cléménçon, Head Retail Business sector

- Born 1962, Swiss citizen
- Degree in Logistics, sfb Technical College, Zurich
- Program for Executive Development (PED), IMD, Lausanne
- Before joining the Group he was Head of Manufacturing at Rheintub AG, Rheinsulz, and CEO of Raintec GmbH, Dogern (Germany)
- Joined the Group in 1995 as Operations Manager Galexis Zurich; Head of Schönbühl Distribution Centre from 1999; Head of Galexis from 2002; Head Logistics Business sector from 2005 to 2015 and in addition in charge of HealthCare Information and member of the Corporate Executive Committee since 2010; since 2015 Head Retail Business sector
- Member of the Board of Helvecura cooperative society, Bern

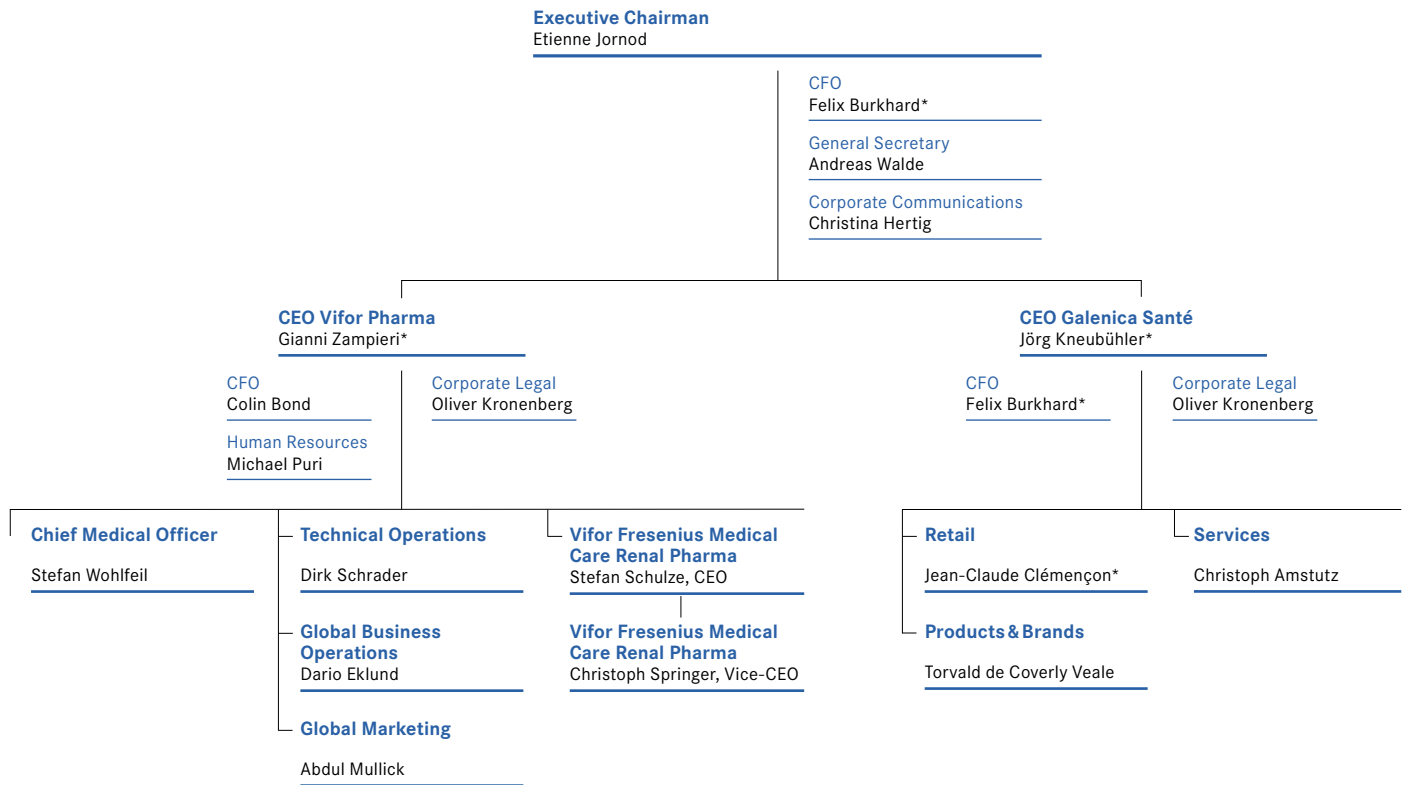


Dr. Gianni Zampieri, CEO Vifor Pharma

- Born 1956, Swiss citizen
- Dr. sc. nat., NDS BWI, Federal Institute of Technology, Zurich/Senior Executive Program, Stanford University (USA)
- Held positions at Roche, Sandoz and Novartis before joining the Group
- Joined the Group in 1996; became CEO of Vifor (International) in 1997; member of the Corporate Executive Committee since 2002; Head of the Pharma Division of the Galenica Group from 2004 to 2008; Head of Industrial Operations at Vifor Pharma since 2008; CEO OM Pharma from 2009 to 2010; Vice-CEO Vifor Pharma since 2011; since 2016 CEO Vifor Pharma

Søren Tulstrup left his position as CEO Vifor Pharma and member of the Corporate Executive Committee as of 24 May 2016.

Organisation of Group Management



* Members of the Corporate Executive Committee Status: January 2017

Duties of the Executive Chairman

- Leading the Board of Directors
- Ongoing strategic development of the Group
- Supporting alliances and acquisitions
- Positioning of the Group re. communications
- Maintaining relationships with partners
- Overall responsibility for the corporate culture (HR policy, communications)
- Involvement in implementing key strategic projects
- Member of the Group's strategic Boards of Directors

Duties of the two CEOs

- Operational management of the Group's Business units Vifor Pharma and Galenica Santé respectively
- Budget realisation and control
- Ensuring compliance, internal control systems and risk management
- Developing relationships with customers, suppliers and authorities
- Supporting the Executive Chairman in preparing strategic, HR-related and financial business for consultation and decision-making

► continued from page 67

ational duties. More precise details of his duties are set out later in this section. The CEOs of Vifor Pharma and Galenica Santé assume operational management of their Business units respectively and head the Corporate Executive Committee. The Board of Directors maintains close contact with the CEOs and the members of the Corporate Executive Committee and invites them, or sometimes each of the CEOs on their own, to attend its meetings when relevant items are to be discussed. At each meeting, the members of the Corporate Executive Committee are invited to report on their respective Business sectors and to discuss important business matters with the Board. Other members of senior or executive management of companies within the Group are also regularly invited to report on their activities or present their projects.

Duties of the Executive Chairman

As Executive Chairman, Etienne Jornod is responsible for leading the Board of Directors, the ongoing strategic development of the Group, alliances and acquisitions, the positioning of the Group concerning communications and stakeholder relations. In particular, he carries out his executive role in important strategic boards of the Galenica Group, such as Chairman of the Board of Directors of Vifor Fresenius Medical Care Renal Pharma Ltd.

The Executive Chairman is closely involved in the implementation of the most important strategic projects. In addition, he has overall responsibility for the Group's corporate culture, a competitive factor that is becoming increasingly important in the labour market. Likewise, he helps shape the HR policy and communications of the Galenica Group. The Swiss heritage of the Galenica Group should be preserved as a competitive advantage and continue to be developed. More than 7,400 of over 8,600 Galenica employees are based in Switzerland.

Duties of the CEOs

Each of the two Business units Vifor Pharma and Galenica Santé has its own CEO in charge of operational management. Each of the two CEOs is responsible for implementing the strategic and operational objectives approved by the Board of Directors, for preparing budgets and ensuring that they are met, and for developing relationships with customers, suppliers and authorities. They implement the Group values (including safety, quality and the Code of Conduct) and issue binding guidelines for their respective Business unit. In doing so, they work closely with each other and with the Executive Chairman on the most important decisions. The two CEOs lead the Corporate Executive Committee. Each of the CEOs reports directly to the Executive Chairman, with whom he prepares the information for the meetings of the Board of Directors. At these meetings, the CEOs, and on some occasions other members of the Corporate Executive Committee, inform the Board of Directors and submit strategic, HR-related and financial business to the Board for consultation and decision-making.

Corporate Executive Committee

The instructions and resolutions of the Board of Directors are implemented for each of the Group's Business units by the Corporate Executive Committee under the leadership of the respective CEO. The Board sets appropriate objectives for each CEO and those members of the Corporate Executive Committee allocated to his Business unit, approves the budget and continually monitors compliance with these targets. Monitoring is based on monthly reports to the Board, which include key figures and reporting on important events and developments, and on the planning cycle. In the first quarter, the results for the previous year are compared with the budget for that year. In the second quarter, the current financial year is evaluated by means of a "Last Estimate 1", and a medium-term plan for the next three years is drawn up. In the third quarter, the results for the first half-year are prepared and re-

viewed, and in the fourth quarter the expected annual result "Last Estimate 2" is determined and the budget for the following year agreed.

The Articles of Association of Galenica restrict the ability of the members of the Corporate Executive Committee to act in the board or senior management of other profit-oriented companies, limiting such outside board activity to one mandate subject to prior approval by its Board of Directors.

Further information on the other duties of the Board of Directors, Executive Chairman and Corporate Executive Committee can be found in the Organisational Regulations published on the Galenica website (www.galenica.com).

Information and monitoring tools

The Board of Directors monitors the Corporate Executive Committee and supervises its working practices. The Galenica Group has a comprehensive electronic information management system. The Board of Directors receives a written report on a quarterly basis and is informed on a monthly basis about the Group's financial and operating performance. In addition, operating performance, opportunities and risks are discussed in depth at meetings attended by members of the Corporate Executive Committee.

Management contracts

No management contracts exist as specified under point 4.3 of the SIX Swiss Exchange Directive on Information Relating to Corporate Governance.

Shareholders' rights to participate

The Annual General Meeting is held each year within six months of the close of the financial year. Extraordinary General Meetings are called as often as necessary by a decision of the Annual General Meeting or Board of Directors, at the request of the auditors or at the written request of shareholders representing on aggregate not less than 7% of the share capital entered in the commercial register.

Each share recorded as a share with voting rights in the shareholders' register entitles the holder to one vote at the Annual General Meeting. Shareholders are also entitled to dividends and have other rights pursuant to the Swiss Code of Obligations.

Results of the ballots taken at the Annual General Meetings are made available on the Galenica website within one week after each meeting.

Voting restrictions and proxy voting

A registered shareholder may be represented at the Annual General Meeting on the basis of a written power of attorney by another shareholder or the independent proxy to whom instructions may be given in writing or electronically. There are no rules that deviate from legal provisions relating to attendance of the Annual General Meeting.

A shareholder or a beneficiary with voting rights may register for shares which, when added to shares already registered as voting shares in the purchaser's name, do not exceed 5% of all voting shares. See page 65 for further details.

Procedure and conditions for lifting restrictions on voting rights

For restrictions on the registration of voting rights to be lifted, shareholders who together represent not less than 0.5% of the share capital entered in the commercial register must request in writing that such an item be included on the agenda no later than 40 days before the Annual General Meeting. The Annual General Meeting must indicate its approval based on an absolute majority, of the votes represented and of the share par values represented.

Quorums under the Articles of Association

In addition to the cases cited in Art. 704 of the Swiss Code of Obligations, approval by at least two-thirds of the votes represented and the absolute majority of the nominal capital represented is required in the following cases:

- A change in the provisions relating to restrictions on the transfer of registered shares, Art. 15c) of the Articles of Association;
- Conversion of registered shares into bearer shares and vice versa, Art. 15d) of the Articles of Association.

Convening of the Annual General Meeting

The Articles of Association do not differ from legal regulations with regard to the convening of the Annual General Meeting and the setting of the agenda. The Annual General Meeting is convened by the Board of Directors at least 20 days before the date of the meeting. The shareholders are invited to attend by a notice placed in official publications. The meeting may also be convened by sending a letter to all the registered shareholders at the addresses entered in the shareholders' register. The notice of a meeting shall state the items on the agenda, the proposals of the Board of Directors and the requests of any shareholders who have called for a General Meeting to be convened or for a particular item to be included on the agenda.

Inclusion of items on the agenda

Shareholders who together represent not less than 0.5% of the share capital entered in the commercial register may request that an item be included on the agenda. They must submit such requests in writing no later than 40 days before the scheduled date of the meeting. Agenda items relating to financial year 2016 that are to be dealt with at the Annual General Meeting on 11 May 2017 must be submitted no later than 31 March 2017. The items to be included on the agenda must be specified along with the motion on which the shareholder requests a vote.

Shareholders' register

There are no regulations in the Articles of Association regarding a deadline for entry in the shareholders' register. However, for practical reasons the shareholders' register remains closed to entries for several days prior to an Annual General Meeting. This will be the case from Tuesday 2 May 2017 for financial year 2016 and from Monday 30 April 2018 for financial year 2017. Shareholders entered in the shareholders' register by Monday 1 May 2017 and Friday 27 April 2018 respectively may exercise their voting rights at the corresponding Annual General Meeting.

Instructions to the independent proxy holder may be given in writing and – since 2014 – also electronically through a platform named Nimbus ShApp® which is used by Galenica. The invitation to the Annual General Meeting, which will be sent to all shareholders on or around 13 April 2017, includes the required login information to create a personal user profile. The instructions must be received by the independent proxy holder by the evening of the penultimate day before the Annual General Meeting, i.e. by Tuesday 9 May 2017 for the 2017 Annual General Meeting and by Sunday 6 May 2018 for the 2018 Annual General Meeting.

Change of control and protective measures

The obligation to make a public offer pursuant to Art. 22 of the Stock Exchange Act (Federal Act on Stock Exchanges and Securities Trading) has not been changed in the Articles of Association. The employment contracts of the members of the Corporate Executive Committee and the members of senior management also contain no provisions to this effect.

Combating corruption

Galenica attaches considerable value to doing business in a manner that is ethically correct and in accordance with the legal requirements in place. It is committed to complying with legal and ethical standards. This must be reflected in every aspect of staff conduct. Galenica enforces a zero-tolerance approach to corruption and bribery on the part of employees, partners, suppliers or representatives of third parties. Many countries have legislation which stipulates that bribing public officials is an offence. Violations of these provisions or other laws prohibiting unfair competition may result in criminal or civil proceedings against Galenica as well as the responsible employees.

In order to ensure full compliance with rules and regulations Galenica has developed an anti-bribery and corruption check. This check is used each time a new business relationship is established with third parties and is being introduced gradually and on the basis of specific priority criteria.

Information and monitoring tools of the Board of Directors with respect to management

Risk management process

Galenica has a risk management process in place which enables the Board of Directors, the Corporate Executive Committee as well as the relevant management of Group companies to identify potential risks in a timely manner and take the preventive measures necessary. The goal of this process is to identify and assess significant risks at all management levels and to manage them while making conscious use of the opportunities the process provides.

As part of Group-wide Galenica Risk Management (GRM), the companies in the Group conduct a risk assessment at least once a year. This standardised process is based on a risk grid in which the most important strategic and operational risks and their possible financial effects are identified in line with pre-defined criteria and

then evaluated in accordance with the probability of their occurrence and their effect. These risks are entered into a risk matrix for each Business sector and, depending on the extent, also incorporated into the Group risk matrix.

The Board of Directors of Galenica receives an overview of the most important risks from the Corporate Executive Committee when circumstances require it but at least once a year. The Board evaluates the overview, adding information as needed, and where required takes decisions on any preventive measures necessary, which will then be implemented Group-wide as part of the risk management process.

Galenica defines risk as the possibility that an event or an action will lead to immediate financial loss or other negative consequences.

- GRM defines three basic objectives:
- Creating a framework for effective risk management within the Galenica Group that will be embedded in existing management and planning processes and will therefore effectively strengthen risk awareness at all management levels.
 - Creating and guaranteeing a lean and pragmatic risk management system that will effectively protect the Business sectors and their profit-earning ability.
 - A credible presentation to stakeholders that Galenica is managing its risks effectively.

Risk management at the level of the Galenica Group records strategic risks that could have significant consequences at Group level or at least at Business sector level. Operational risk management is specifically defined and managed by the individual Group operating companies, although it is recognised that events in individual companies can clearly have an influence on the strategic risks of the Group. Risks are managed at the appropriate level by the management hierarchy that is best suited for this purpose. This ensures that action will be taken in an efficient manner and that experience will be broadly reinforced within the Galenica Group.

The systematic overview of the key risks enables the Board of Galenica to coordinate with the chosen strategy, prioritise risk, allocate resources and specify any action required.

The Corporate Executive Committee as well as other management figures holding responsibility in the companies of the Group are familiar with the risks of the Group, their Business sector or their Group company. They successfully implement any measures decided upon and are responsible for the efficient operation of the risk management process. They also draw attention, however, to new risks which have become apparent or to any other change in the risk situation and, in addition to implementing measures to prevent or minimise such elements, ensure that these are incorporated into the risk management process.

Additional information about the management of financial risks can be found in the notes to the consolidated financial statements on pages 121 and 122.

Internal control system

As part of its risk management system Galenica operates an internal control system (ICS) to provide reliable internal and external financial reporting and to prevent false information and errors about business transactions. The ICS provides the necessary processes and controls to ensure that risks relating to the quality of the company's financial reporting can be detected and managed in a timely manner. A thorough review of the existence of the processes and controls of the Galenica ICS is carried out annually by the external auditors at the time of the interim audit. The results of these reviews are reported to the Audit and Risk Committee and appropriate measures are taken by management to continually improve the company's processes with regard to bookkeeping, accounting and financial reporting.

Internal Audit

Internal Audit carries out audits of operational and strategic risk management and the ICS in accordance with the audit plan determined by the Audit Committee. It carries out reviews, analyses and interviews across the Group and helps the Business sectors to meet their targets by ensuring an independent assessment of the effectiveness of the internal control processes. Internal Audit regularly produces reports on its audits and reports directly to the Audit and Risk Committee in writing. The activities of Internal Audit are conducted through contracts issued to external service providers.

Auditors

Ernst & Young Ltd., Bern, Switzerland, have been the Group's auditors since 1992. Roland Ruprecht, certified accountant, a partner at Ernst & Young, has been in charge of the audit since 2015.

The fees paid to the Group's auditors Ernst & Young in 2016 for their audit of Galenica and companies within the Galenica Group totalled approximately CHF 1,525,000.

The fees paid to Ernst & Young and their close collaborators for other services rendered to Galenica and its subsidiaries in the period under review amounted to CHF 651,000. They break down as follows:

- Additional advice in audit matters CHF 237,000;
- Tax and legal advice CHF 203,000;
- Transaction support incl. due diligence CHF 211,000.

In 2016, Roland Ruprecht attended two meetings of the Audit and Risk Committee. Moreover, the auditors presented their report at the meeting of the Board of Directors on 10 March 2017.

The auditors are regularly informed of new projects by the Board of Directors. The auditors' activities are reviewed at least once a year by the Audit and Risk Committee. The criteria that are of particular importance in these reviews are: competence in reporting, understanding of the complex structure of the Group, the quality of re-

porting, compliance with deadlines, independence and costs. The involvement of the auditors in the financial elements of due diligence reviews for acquisitions and in the related legal advice improves the efficiency of the process.

Information policy

Galenica and its companies operate an active and transparent information policy towards all their stakeholder groups. Consistency and credibility are two fundamental principles that are reflected in factual, comprehensive and objective communication.

Ad hoc publicity

Important and price-relevant events are communicated in a timely manner via electronic media and in accordance with the Directive of the SIX Swiss Exchange. Any employees affected are informed first, as long as this is possible in the specific situation and allowed by law.

Periodic publications

Once a year, Galenica publishes an annual report and a half-year report. The full versions of these reports are available on the Galenica website. In addition, Galenica publishes a printed short version of the annual report which is sent to the shareholders by mail upon request.

The invitation to the Annual General Meeting is sent to shareholders electronically or by mail, and is additionally published in the "Schweizerisches Handelsamtsblatt".

Internet

All Galenica publications, all media releases and other supplementary information about the Group can be found at www.galenica.com.

Contact persons and important publication dates

For shareholders

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For the media

Christina Hertig,
Head Corporate Communications
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Agenda 2017/2018

- Annual General Meeting 2017:
11 May 2017
- Half-year report 2017:
8 August 2017
- Annual General Meeting 2018:
8 May 2018

Further important dates can be found on the website www.galenica.com.

Brand management

Philosophy and implementation

Excellence in the healthcare market

Galenica seeks to be recognised as a reliable, dynamic and efficient Group within the healthcare market which creates value for all stakeholder groups with high-quality products and services. Thus, Galenica also invests its energies in looking after its brands. Galenica stands for quality and professionalism, for credibility and transparency, for reliability and continuity. There is a clear focus on excellence in our support line “Galenica – excellence in the healthcare market”. Group Corporate Communications, in particular, is responsible for implementing Galenica brand communication.

Corporate identity

Galenica is a broad-based Group which manages well-established company, product and service brands in the healthcare market. Products and services under the Galenica brand guarantee a high level of quality. The communication philosophy “as centralised as necessary and as decentralised as possible” is also reflected in brand management. This means giving the individual companies under the Galenica umbrella room to address target groups in the best way possible for the market segment and product involved. That is why Galenica companies operate under their own names in the market. At the same time, over and above this diversity, the Galenica Group seeks in particular to express clearly the shared identity of the companies comprising the Group. A consistent identity is vital; therefore, it is reflected in the uniformly defined corporate identity and corporate design. Presenting a uniform corporate design across all Group companies supports the consistent positioning of the Group and its companies.

The Group's brands

Organisational basis

The Galenica Group is structured into two Business units, Vifor Pharma and Galenica Santé, the latter being structured into the two segments Health & Beauty, comprising the Products & Brands and Retail Business sectors, and Services. The Group companies are assigned to the Business units on the basis of their core activities. The Galenica brand is supported at all levels by the descriptor (the support line) used with the logo. At Group level, it is the broad basis of excellence that is communicated; at company level, it is the fact that the company is part of the Galenica Group that is signalled.

The majority of companies in which Galenica has more than a 50% holding follow this strategy and use the common corporate design. New companies are integrated progressively in line with a clearly defined process. Important strategic marketing considerations are taken into account when dealing with well-established and well-known brands.

Basic guidelines on corporate design are summarised in two handbooks for staff and external partners and include all areas of application, such as corporate stationery, printed products, company signs and website design. The handbook for employees is available in printed and electronic form, while the handbook for external partners is available in electronic form. In addition, internal training sessions on how to use the Galenica corporate design take place regularly for new employees; the sessions are also open to established employees interested in refreshing or deepening their knowledge.

Protection of the Group's brands

Galenica systematically fosters and protects its company brands in all countries where it is active and guarantees a high standard of quality.

Product and service brands

The Galenica company brands are supplemented by the product and service brands of the companies within the Group, focused on the customers of the individual Business units: for example, the products of Vifor Pharma, the offering of the pharmacy formats Amavita and Sun Store, and the Services offering including logistics and the databases and software products in the area of information management. The presentation of these products and services is tailored to markets and customers specific to individual companies and, therefore, differs from the Group corporate design. The corporate design and the accompanying communication and marketing measures are defined and implemented by the relevant company. Special events and activities organised in conjunction with the branding of products and services along with customer surveys during the year under review can be found in the sections for the Business units of the Galenica Group starting on page 26.

Protection of product and service brands

Product and service brands are systematically fostered and protected by the individual companies in the countries where they are marketed.

Main brands of the Galenica Group

Umbrella brand



Brands of the Galenica Group companies

Vifor Pharma

Vifor Pharma

Vifor Fresenius Medical Care
Renal Pharma

relypsa

OM Pharma

Galenica Santé

Products & Brands

Vifor Consumer Health

G-Pharma

Retail

GaleniCare

Winconcept
Healthy Marketing Solutions

Pharmacy formats

AMAVITA+

APOTHEKE
SUN STORE

coop
vitality+

MEDI SERVICE

Winconcept
Healthy Marketing Solutions

Services

Alloga

Galaxis

ufd

medifilm®

HCI Solutions

Product and service brands

Iron and Rx products

ferinject

Venofer®
IRON SUCROSE

Maltofer®

VELPHORO®

Veltassa®
(patiromer) for oral suspension

Currently only available in the US

OTX products

BRONCHO-VAXOM®

URO-VAXOM®

dicynone®

DOXIUM®

Consumer Health Products

PERSKINDOL

ANTI
BRUMM®

Algifor®

Triofan®

Triomer®

Otalgan®

Itinerol B6®

MAGNESIUM
VITAL

Services

STAR-CARD Analtix+

SUN STORE
SUN-CARD
10% IMMEDIAT

MEDI PASS

Services

TOP MEDICAL

TOP HOMECARE

GALecoline®

Pharm Update

Commercial merchandise

Beautynail

Information Solutions

compendium.ch®
by HCI Solutions

pharmaVISTA®
by HCI Solutions

vita VISTA.ch
Gesundheit, Schönheit, Leben

hospINDEX®

triaPHARM®

Remuneration Report



Content

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Remuneration benefits and philosophy

The salary policy of Galenica aims to attract, motivate and retain best-in-class employees who are entrepreneurially oriented, successful and have high personal standards. The remuneration system is designed to provide appropriate reward in a highly competitive employment market and in a complex industry. It is aligned with the long-term Group strategy and its pay-for-performance philosophy. The remuneration system of Galenica aims at strengthening its overall industry position to the benefit of its customers and patients while delivering the expected returns to its shareholders.

The remuneration system of Galenica is part of a sustainable, long-term development policy to support the strategic goals defined by the Board of Directors, recognising that under certain conditions, economic success is achieved over a longer period. Accordingly, the company does not pay any remuneration in the form of traded options. Members of the Corporate Executive Committee and members of Senior Management participate in the Group's value creation in the form of blocked shares, so being aligned with the interests of shareholders.

Key remuneration principles

Remuneration of members of the Board of Directors

The remuneration of non-executive members of the Board of Directors is independent from the performance of the company and comprises a fixed salary depending on their function assumed in the Board of Directors and its committees, either as a member or chairperson of a committee. Such remuneration may be drawn fully or half in registered shares of Galenica (blocked for five years). In addition, after a period of two years, each member of the Board is required to hold shares equal in value to at least one annual salary which remain blocked during his/her mandate. The members of the Board of Directors except the Executive Chairman do not participate in the employee benefit plans, therefore the remuneration of the Board of Directors is not pensionable.

The remuneration of the members of the Board of Directors is reviewed regularly against prevalent market practice of other multinational industrial companies listed in Switzerland as well as based on data published by Ethos (a Swiss Foundation for Socially Responsible Investment and Active Share Ownership). The last review took place in 2014 by Hostettler Kramarsch Partner, Zurich.

Remuneration of members of the Corporate Executive Committee

The remuneration of members of the Corporate Executive Committee as well as Senior Management is strongly linked to the financial performance of the Group and to a lesser part to their individual performance and the performance of the share price. Exceptional results are recognised and rewarded.

The remuneration system rewards short-term success as well as long-term performance and sustainable value creation for customers and shareholders in a balanced way. In order to align the interests of members of the Corporate Executive Committee and Senior Management with the interests of shareholders, a part of the bonus (up to 32%) and the long-term incentive of the remuneration is awarded in shares of the company. In addition, after a period of five years, each member of the Corporate Executive Committee is required to hold shares equal in value to at least 75% of his fixed base salary and target bonus.

In order to ensure attraction of best-in-class talents, Galenica performs regular benchmarks of its remuneration levels against relevant peer markets. Generally, the Group targets median levels representing competitive offers.

Remuneration of the Executive Chairman of the Board of Directors

Since 2012, Etienne Jornod has exclusively received registered shares in Galenica for his duties as Executive Chairman. Such a remuneration system demonstrates how closely Etienne Jornod identifies himself with the shareholders and proves his confidence in the strategy and management of the Group.

In addition, Etienne Jornod has received CHF 150,000 per year in cash, which is used to pay the employee part of social security contributions. In 2015, the Board of Directors and Etienne Jornod agreed to extend the contract until the Annual General Meeting 2020 and to continue to pay out compensation exclusively in registered shares. The annual payment to be approved will be made at the end of each

year. The registered shares to be paid out in future are blocked over the entire term of the contract until the Annual General Meeting 2020. It was also agreed that the block on sale for 20,000 of the already acquired shares would be extended until the Annual General Meeting 2020. Thereafter, the contract was amended in 2016 to the effect that Etienne Jornod would continue to act as Executive Chairman for Vifor Pharma after the planned division of the Group in 2017. Should the contract be terminated prematurely or should the executive function be converted into a non-executive function, the employment contract contains detailed provisions which stipulate how many shares Etienne Jornod is entitled to, pro rata temporis, at such a date and at what price, depending mainly on whether the employee or the employer has called for a premature termination. Upon termination of the contract or surrender of the executive function, the blockage for the shares previously earned will be lifted, enabling Etienne Jornod to dispose of them at his sole discretion. No severance package has been agreed.

Remuneration Report

With this report, Galenica provides an overview of the compensation principles and programmes applied within its Group as well as information on the process of determining the compensation for the Executive Chairman, the Board of Directors as well as for the members of the Corporate Executive Committee. The remuneration system as well as its reporting is in accordance with the Swiss Code of Obligations, the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares, the standards related to Corporate Governance issued by SIX Swiss Exchange and the principles of the Swiss Code of Best Practice for Corporate Governance issued by *economiesuisse*. The statutory auditor verifies compliance of the report with the law and Articles 14–16 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares and issues a written report to the Annual General Meeting.

Determination of remuneration

In accordance with the Articles of Association and the Organisational Regulations of Galenica, the Remuneration Committee consists of three members, all of whom are independent from Galenica and are elected annually by the shareholder meeting. The Remuneration Committee evaluates and approves principles and programmes for remuneration of the Galenica Group and assesses criteria and the level achievements reached by the CEOs and the members of the Corporate Executive Committee based on the targets set by the Board. It also proposes the maximum remuneration of members of the Board (including the Executive Chairman) as well as for the members of the Corporate Executive Committee (including the CEOs) for approval by the Annual General Meeting. Such approval is prospective for the next business year following the Annual General Meeting. Further details on the composition and the responsibilities of the Remuneration Committee are provided in the Corporate Governance section of the annual report as well as in the Remuneration Committee Regulations, which can be found on the Galenica website.

Method of determination

In order to attract and retain talented employees, it is critical to offer competitive remuneration. The Remuneration Committee reviews remuneration of the CEOs and the members of the Corporate Executive Committee annually and compares it to the remuneration levels of similar positions at companies which are comparable in scope, geography and business complexity, i.e. companies with which Galenica competes for talents. In support of such a review, external consultants are hired as needed to assist in reviewing the mix of short-term and long-term remuneration, the mix of cash versus equity-based remuneration as well as the remuneration levels. They also assist in developing the strategy that forms the foundation of the remuneration system. A benchmark study on the remuneration of

members of the Corporate Executive Committee and certain other functions was carried out by Kienbaum Consultants International in 2012, and updated for the management functions of Vifor Pharma in 2016. Besides this, no other external suppliers were mandated in the reporting period.

Employee remuneration generally consists of a fixed base salary, which depends on the employee's position level, and a bonus for the CEOs, the members of the Corporate Executive Committee, Senior Management and Management. The bonus system allows members of the Corporate Executive Committee, Senior Management and Management to benefit from the profits of the relevant Business units and the Group. The achievement of personal targets set at the beginning of a business year and assessed after year-end is also rewarded. The CEOs, members of the Corporate Executive Committee and certain members of Senior Management also receive additional long-term remuneration, which is in part dependent on the achievement of specific objectives (such as the successful integration of major acquisitions). The purpose of the bonus system is to ensure that all members of Senior Management and Management act and make decisions in such a way as to support the achievement of targets at all levels and

thereby contribute to sustained positive results for the Group as a whole, as well as the Business unit and company to which they belong. This serves to harmonise the interests of shareholders with those of the Group and its management. Through share participation, identification with the company is further enhanced. Finally, members of the Corporate Executive Committee, Senior Management and Management receive contributions to pension funds.

The bonus and long-term remuneration depend primarily on the achievement of the specified financial targets of the Galenica Group and to some extent the Vifor Pharma or Galenica Santé Business units. In recent years, against a background of stable and predictable growth, this has been defined as a relative increase in Galenica Economic Profit (GEP). However, in view of a division of the Group, a relative increase in economic profit at Group level can no longer be determined and reviewed over a three-year period, while major transactions such as the acquisition of the US firm Relypsa Inc., distort results and impede comprehensibility. At the recommendation of the Remuneration Committee, the Board of Directors has therefore decided to replace the Group-wide GEP target for long-term remuneration with separate targets relating to return on invested capital (ROIC) for

the two Business units from financial year 2016 onwards. These targets will again be defined annually for the bonus and for a three-year period on a rolling basis for long-term remuneration. For current long-term remuneration periods, the two metrics will be split pro rata temporis. The GEP is a measure designed to reflect the principles of value-based management derived from an economic-value-added (EVA) approach. It is based on the understanding that in the interests of shareholders and other important stakeholder groups, the Galenica Group will strive to achieve a long-term investment return which exceeds the weighted average cost of capital. It is calculated as the net operating profit (before interest and after depreciation, amortisation and tax) less the weighted average cost of capital (WACC) over the average invested capital. The extent to which the ROIC target (or the relative GEP increase) is achieved has a 75% impact on the bonus and a 100% impact on the number of shares allocated under the long-term incentive plan; the personal targets may account for a maximum of 12.5% of the remuneration of the CEOs or the members of the Corporate Executive Committee (in 2016: 9.0% on average for the members of the Corporate Executive Committee – excluding the CEOs). Poor performance inevitably

Responsibility for the remuneration process

Level of authority	CEOs	Executive Chairman	Remuneration Committee	Board of Directors	Annual General Meeting
Remuneration of the Executive Chairman			proposes	approves	approves maximum possible remuneration for the Board of Directors including the Executive Chairman for the following year
Remuneration of the Board			proposes	approves	approves maximum possible remuneration for the Board of Directors for the following year
Remuneration of the Remuneration Committee		proposes		approves	
Remuneration of the CEOs		proposes	recommends	approves	approves maximum possible remuneration for the Corporate Executive Committee including the CEOs for the following year
Remuneration of members of the Corporate Executive Committee	propose		approves	is informed	

The Executive Chairman is invited to all meetings of the Remuneration Committee except those dealing with his own remuneration. The CEOs are invited to attend discussions on a case-by-case basis.

has a negative impact on the total remuneration (fewer shares, with each of them having eventually a lower value). However, the remuneration system does not include any particular malus provisions.

The weighting of the individual remuneration components depends on an employee's position level. Criteria such as budget responsibility are important factors. The greater the employee's direct influence on such factors, the higher the weighting of the variable component of remuneration. When defining the weighting, setting targets and measuring their achievement, the responsible body is always permitted a degree of discretion in the application of the criteria mentioned in this report, even if this is not specifically mentioned in individual cases.

Variable remuneration arising from the bonus and from the long-term incentive plan paid out to eligible members of the Corporate Executive Committee and Senior Management amounts to between 0% and 200% of the fixed salary component. However, the annual bonus and variable long-term incentives represent two independent elements and are calculated and weighted separately.

To a lesser degree, but in accordance with the principles described above, members of Management are also paid a performance-related bonus.

Independent of their remuneration and under the terms of the share acquisition plan for employees, every year employees are entitled to acquire a certain number of blocked shares, which is specified in company regulations, at a reduced price (more information on pages 119, 161 and 162 in the financial statements 2016).

Responsibilities

The overall responsibility for the remuneration system of Galenica and in particular the guiding principles for the remuneration of its Board of Directors, the CEOs and the members of the Corporate Executive Committee are defined in the Articles of Association of Galenica. On such basis, the remuneration strategy and the related remuneration system for the members of the Board of Directors, the Corporate Executive Committee and Senior Management (including the principles of equity remuneration plans) are decided by the Board of Directors based on a proposal from the Remuneration Committee.

On an annual basis the Board of Directors decides on the individual remuneration of the Executive Chairman and the CEOs as well as the aggregate for the other members of the Corporate Executive Committee as proposed by the Remuneration Committee. The Remuneration Committee is responsible for deciding on the individual remuneration and participation in equity remuneration plans by members of the Corporate Executive Committee other than the CEOs and informs the Board of Directors at least once a year of its decisions and the development of the remuneration process.

Remuneration and participation in equity remuneration plans by the CEOs and members of the Corporate Executive Committee as well as Senior Management are determined and objectives set at the beginning of the reporting year within the frame set by the Annual General Meeting. For members of the Corporate Executive Committee, the Remuneration Committee is responsible for determining the target bonus, the weighting of the individual components and for the evaluation of individual target achievement. For the CEOs, the Board of Directors decides on the basis of a recommendation made by the Executive Chairman and the Remuneration Committee. Measurement of targets consists of both financial and qualitative elements (for example, sales growth of a particular product or a group of products, the launch of a particular product or implementation of a particular process). The bonuses of mem-

bers of Senior Management are determined by the Corporate Executive Committee based on the performance appraisal by the respective direct line manager.

Members of the Corporate Executive Committee and certain members of Senior Management participate in the LTI Programme. Eligibility for the LTI Programme is determined by the Remuneration Committee for members of the Corporate Executive Committee, and by the Corporate Executive Committee for members of Senior Management. Targets set for the LTI are exclusively financial and are defined as a three-year GEP increase for the Group or an average ROIC to be achieved for this period, whereby the relevant targets for the LTI are set by the Board of Directors upon recommendation of the Remuneration Committee.

The remuneration of members of the Board of Directors, which may be paid in the form of blocked shares, is decided by the Board of Directors based upon a proposal of the Remuneration Committee within the range set by the Annual General Meeting.

Elements of remuneration for the CEOs and the members of the Corporate Executive Committee

In order to reward performance and promote loyalty of key talents and their long-term engagement towards Galenica, the remuneration system consistently applied comprises an annual base salary, short-term bonus, long-term incentive and customary benefits. The ratio between annual base salary and variable elements is defined in the Articles of Association of Galenica. The aggregate of the maximum possible variable elements irrespective of the effective pay-out is limited to 300% of the base salary of each of the CEOs and to 250% of the base salary of each of the members of the Corporate Executive Committee. Thereof, the short-term bonus must not exceed 200% of the base salary for each of the CEOs and 150% of the salary of each member of the Corporate Executive Committee.

Annual base salary

The annual base salary is the fixed compensation reflecting the scope and key areas of responsibilities of the function, the skills required to fulfil the function and the individual experience and competencies of the respective manager. The base salary is determined according to the typical market practice (external benchmark) and the Group internal salary structure. A base salary at median of the benchmark is considered competitive to satisfy the expected level of skills and competencies. The base salary is typically reviewed annually based on market salary trends, the company's ability to pay based on its financial performance and the evolving experience of the manager in the function. The annual base salary is paid out in cash on a monthly basis.

Short-term bonus

The short-term bonus aims at rewarding the achievement of the company's financial results and recognises individual contributions to the company's overall performance over a business year. The target bonus is expressed as a percentage of the annual base salary and varies depending on the level of the function in the organisation and on the impact of the function on the overall business result. Typically, the target incentive amounts to 60–80% of the annual base salary for the CEOs and between 30% and 60% for the members of the Corporate Executive Committee.

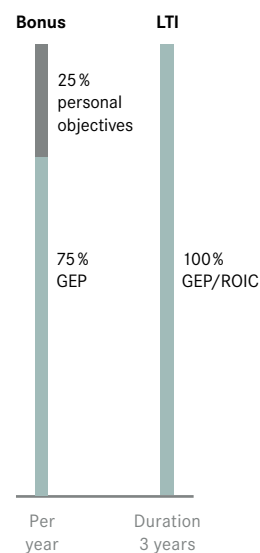
At the beginning of the calculation period, the target bonus is defined, i.e. the amount paid out if the targets for all bonus components are reached 100% (target bonus), whereby the achievement of financial objectives of the Group and the Business units is weighted 75% and individual objectives 25%. This is normally set individually on an annual basis as an absolute amount together with the relevant fixed salary for the next year.

For both financial and individual objectives, a target, a threshold and a payment curve are defined against which the results are assessed and which translate to a total bonus with an upper limit of 200% of the target bonus.

Upon approval of the annual results by the Board of Directors, the GEP attainment level for the financial components "Group" and "Business units" is calculated as a percentage. The achievement of financial and individual objectives which were laid down in both quantitative and qualitative form at the beginning of the business year is assessed by the Executive Chairman and the Remuneration Committee for the CEOs and submitted to the Board of Directors for approval. The attainment of these objectives of the members of the Executive Committee is assessed by the responsible CEO and the Executive Chairman and submitted to the Remuneration Committee for approval. Within the range set by the Annual General Meeting, the Board of Directors may award an individual supplement to the calculated bonus for exceptional performance of either of the CEOs over the previous year and the Remuneration Committee may award such an individual supplement for exceptional performance of any member of the Corporate Executive Committee.

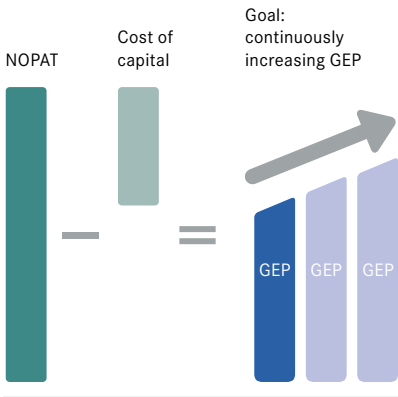
The payment of the bonus is made in the subsequent year after the publication of the full-year results. The CEOs, the members of the Corporate Executive Committee and Senior Management are required to draw 32% of the bonus in shares of Galenica; the rest is paid out in cash. A discount of currently 25% on the average stock market price for the month of January in the year in which the bonus is paid is granted as the shares remain blocked for five years. The CEOs and members of the Corporate Executive Committee are requested to build up a shareholding of shares of Galenica over a period of five years equivalent to 75% of their annual base salary and target bonus.

Influence of variable remuneration by the GEP/ROIC

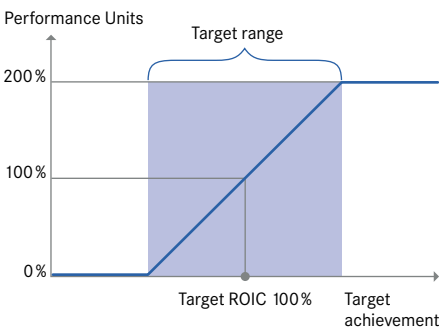


Relevant parameter: Galenica Economic Profit (GEP)

GEP: Net Operating Profit (NOPAT) minus cost of capital for necessarily invested capital.



Relevant parameters: ROIC of Business units



Long-term Incentive Programme

The Long-term Incentive Programme (LTI) is designed to motivate eligible managers to ensure that their actions and decisions support the achievement of the medium- and long-term value-based targets across all levels. With this instrument Galenica also seeks to harmonise the interests of management and the Group with the interests of its shareholders, and to sustainably create value for patients, customers and its shareholders over the long term. In addition, the LTI Programme aims to further strengthen the loyalty of its managers to Galenica, identification with the company and to motivate its key talents to stay with the company.

The CEOs, members of the Corporate Executive Committee and selected members of Senior Management participate in the LTI Programme. Eligibility and extent of participation in the LTI Programme is decided by the Board of Directors for the CEOs and by the Remuneration Committee for the members of the Corporate Executive Committee.

The LTI Programme is based on performance units which are granted to participants after the release of the results of the preceding year and which convert into shares of Galenica subject to the attainment of a performance target defined by the Remuneration Committee over a three-year period. Performance units are virtual; no real units are issued. The number of performance units allocated at the beginning of the plan period depends on a defined percentage of the annual base salary as well as the average share price during the final month prior to the allocation. The performance target for each three-year LTI Programme is defined by the Remuneration Committee by setting a target GEP increase (or average ROIC from 2016) reflecting the risk-appropriate return requirements of its shareholders over the programme period. The number of performance units initially allocated increases or decreases depending on the proportion of the achievement of the GEP or ROIC target set. Upon completion of the three-year programme pe-

riod, such performance units are transformed into a corresponding number of shares of Galenica, so aligning the interests of participants with those of Galenica shareholders. Accordingly, the main factor influencing the transformation of performance units into Galenica shares is the operating performance of the Galenica Group over the respective three-year period, applying a linear interpolation between the threshold of the GEP at the time of the allocation of the performance units and a maximum target attainment of 200%, or between the upper and lower limit of the ROIC target range. At the beginning of each financial year, a new LTI Programme with a new three-year target and assessment period is issued.

Pensions and other employee benefits

Employee benefit plans consist mainly of retirement, insurance and healthcare plans that are designed to protect the employees against the hazards of life. Employee benefits are country-specific and are structured in accordance with local legal requirements and local competitive market practice. The CEOs and the members of the Corporate Executive Committee are covered by the pension scheme applicable to all employees in Switzerland. The Swiss pension plan of Galenica exceeds the legal requirements of the Swiss Federal Law on Occupational Pension Schemes (BVG) and is in line with what is being offered in Switzerland by other listed companies of comparable size.

Except for the expense allowance and the right to use a company car in line with the car policy applicable to all managers in Switzerland (and apart from some minor reimbursement of costs for relocation, tax and legal advice in the event of moving to Switzerland from abroad), the CEOs and the members of the Corporate Executive Committee do not receive any particular additional benefits. The monetary value of the allowance is disclosed at fair value in the remuneration table.

Employment contracts

The CEOs and the members of the Corporate Executive Committee are employed under employment contracts of unlimited duration and are subject to a notice period of a maximum of 12 months. They are not entitled to any severance packages or termination payments or change-of-control payments.

Annual remuneration 2016

Since 2015, in accordance with the Articles of Association, the shareholders of Galenica make a prospective annual decision on the maximum remuneration for members of the Board of Directors and members of the Corporate Executive Committee for the next business year. In order to allow for a comparable basis with the prospective vote, remuneration paid or attributed in 2016, as well as that of the previous year,

is presented on the same basis perspective of cost to the company. Consequently, Galenica discloses for the year 2016 the remuneration of the Executive Chairman at the IFRS costs as booked in the consolidated financial statements, and shares distributed as part of the compensation are shown at market value at the date of allocation, not taking into account the 25% discount granted for tax purposes in relation with the blocking period of five years.

Board of Directors

The members of the Board of Directors, excluding the Executive Chairman, whose remuneration is described separately, are remunerated independent of the performance of the company in the form of a fixed salary depending on their function assumed in the Board of Directors and its committees, either as member or chairperson of a committee. A minimum of 50% of such remuneration is paid out in shares of

Galenica (blocked for five years). Remuneration settled in the form of registered shares of Galenica was paid at the average price for the month of December 2016, i.e. CHF 1,116.38 per share.

Executive Chairman

For his service in the period from 1 January 2012 to 31 December 2016, Etienne Jornod received a non-recurring share-based payment on 1 January 2012 in the form of 40,000 registered shares in Galenica. To compensate for the lack of periodic remuneration over the five-year period (salary, bonuses, shares, etc.), the Executive Chairman received these shares at the market price on the date of conclusion of the contract (CHF 528.00). In accordance with IFRS the expense for this share package was recognised over the lifetime of the contract (69 months) and accordingly at CHF 3,670,000 in the consolidated financial statements of the Galenica Group for 2016.

Remuneration of the members of the Board of Directors in 2016

in thousand CHF	Fee in cash	Fee equivalent in shares	Other remuneration ¹⁾	Total	Registered shares	
					Held as at 31.12.2016	Allocated for 2016
Etienne Jornod, Executive Chairman	150	3,670	341	4,161	20,050	8,000
Executive member of the Board of Directors	150	3,670	341	4,161	20,050	8,000
Daniela Bosshardt-Hengartner	50	213	14	277	1,008	191
Michel Burnier	75 ²⁾	100	10	185	542	90
Romeo Cerutti	–	173	9	182	38	155
Marc de Garidel ³⁾	12	200	10	222	71	179
Hans Peter Frick (until Annual General Meeting 2016)	20	27	1	48	–	24
Sylvie Grégoire	60	80	8	148	293	72
Fritz Hirsbrunner ³⁾	35	173	7	215	6,448	155
Stefano Pessina	–	146	5	151	1,975	131
This E. Schneider	–	227	10	237	3,670	203
Non-executive members of the Board of Directors	252	1,339	74	1,665	14,045	1,200
Remuneration of the members of the Board of Directors	402	5,009	415	5,826	34,095	9,200

¹⁾ Other remuneration corresponds to the social security costs due from the member of the Board of Directors but paid by Galenica as well as the employer's contribution to the pension funds. The employer's contributions to social security costs amounted to CHF 352,000

²⁾ The amount will be paid to the Centre Hospitalier Universitaire Vaudois (CHUV) in Lausanne

³⁾ The remuneration also includes the remuneration for services rendered to Group companies and the Galenica pension funds

Registered shares held by related parties of members of the Board of Directors are included in the declaration of the number of shares they hold.

In addition, Etienne Jornod receives CHF 150,000 per year, which is used to pay the employee share of social security contributions. The contract has been amended in accordance with legislation relating to the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (VegüV) for the year 2016, adjusting the payment mechanism from a pre-payment to a payment at the end of the year without changing the economics of the contract. In 2015, the Board of Directors and Etienne Jornod agreed to extend the contract until the Annual General Meeting 2020 and to continue to pay out compensation exclusively in registered shares. The annual payment to be approved will also change from a pre-payment to a payment at the end of the year from 2016 onwards. The registered shares to be paid out in future are blocked over the entire term of the contract until the Annual General Meeting 2020. It was also agreed that the block on sale for 20,000 of the already acquired shares would be extended until the Annual General Meeting 2020. The remaining shares, however, may be sold from the current financial year onwards. Should the contract be terminated prematurely, the employment contract contains detailed provisions which stipulate how many shares Etienne Jornod is entitled to, pro rata temporis, at such a date and at what price, depending on whether the employee or the employer has called for a premature termination.

Corporate Executive Committee

The Members of the Corporate Executive Committee are remunerated in the form of a fixed base salary, with variable elements and certain employee benefits. They also participate in certain share-based compensation plans.

The bonus payment for the business year 2016 has been calculated based on a target achievement of 214.0% of the objectives of the respective CEO and the members of the Corporate Executive Committee for the Vifor Pharma Business unit and 137.5% for the Galenica Santé Business unit, i.e. 68.75% of the maximum possible bonus for such year. For the LTI Programme 2016–2018, the allocation of performance units will be defined on the basis of the average share price from January 2017 and ROIC targets defined separately by the Remuneration Committee of Vifor Pharma and Galenica Santé. The target achievement of the LTI Programme 2014–2016 due at the end of 2016 was 167.1%.

In 2016, Gianni Zampieri, CEO Vifor Pharma, was the member of the Corporate Executive Committee with the highest remuneration. In 2015, Søren Tulstrup was the member of the Corporate Executive Committee with the highest remuneration; he stepped down from his function as CEO and member of the Corporate Executive Committee in May 2016.

Options

Neither the members of the Board of Directors nor the members of the Corporate Executive Committee hold tradable options.

Loans and credits

Galenica did not grant any loans or credits to members of the Board of Directors, members of the Corporate Executive Committee or related persons in the reporting period.

Former members of the Board of Directors and the Corporate Executive Committee

Galenica did not pay any remuneration to former members of the Board of Directors or the Corporate Executive Committee in the reporting period except for payments to Søren Tulstrup, who resigned on 24 May 2016.

Remuneration of the members of the Corporate Executive Committee in 2016

in thousand CHF	Total	of which Gianni Zampieri	of which Jörg Kneubühler
Base salary	2,621	554	504
Bonus in cash	1,543	504	539
Bonus in shares	734	316	213
Long-term Incentive Programme ¹⁾	874	201	209
Contributions to pension funds	406	89	87
Other remuneration ²⁾	16	–	2
Remuneration received	6,194	1,664	1,554
Social security costs	432	114	107
Remuneration of the members of the Corporate Executive Committee³⁾	6,626	1,778	1,661

¹⁾ The performance units falling due after three years are included with the fair value at grant based on the estimated target achievement (IFRS 2)

²⁾ Including private utilisation of company car, reimbursement for relocation as well as tax/legal advice

³⁾ Remuneration to Søren Tulstrup, former CEO Galenica Group, for services provided to companies in the Galenica Group amounted to CHF 1,387,000

Shareholdings and rights to performance share units of members of the Corporate Executive Committee

	Number of registered shares held as at 31.12.2016 ¹⁾	Long-term Incentive Programme (LTI) Performance share units (PSU) ²⁾			PSU pending
		PSU granted in 2016 (potential vesting at 31.12.2018) ³⁾	PSU granted in 2015 (potential vesting at 31.12.2017) ³⁾	PSU granted in 2014 (potential vesting at 31.12.2016) ³⁾	
Felix Burkhard	911	66	118	165	349
Jean-Claude Cléménçon	488	85	144	165	394
Jörg Kneubühler	672	142	250	273	665
Gianni Zampieri	3,598	137	167	251	555

¹⁾ Registered shares held by related parties of members of the Corporate Executive Committee are also included in the totals disclosed above

²⁾ Each performance share unit transforms at vesting into one registered share

³⁾ The shares corresponding to the PSU are transferred to the beneficiaries in the subsequent year

For better comparability, the number of performance share units are shown already when granted and not only at vesting after the three-year plan period expires. Included in the table above is the expected number of performance share units that will – based on the current assessment of target achievement – ultimately vest.

Annual remuneration 2015

Remuneration of the members of the Board of Directors in 2015

in thousand CHF	Fee in cash	Fee equivalent in shares	Other remuneration ¹⁾	Total	Registered shares	
					Held as at 31.12.2015	Allocated for 2015
Etienne Jornod, Executive Chairman	150	3,670	341	4,161	20,518	–
Executive member of the Board of Directors	150	3,670	341	4,161	20,518	–
Daniela Bosshardt-Hengartner	80	107	11	198	937	71
Michel Burnier	72 ²⁾	95	10	177	616	63
Romeo Cerutti (as of Annual General Meeting 2015)	43	57	6	106	–	38
Marc de Garidel (as of Annual General Meeting 2015)	–	107	5	112	–	71
Hans Peter Frick	70	93	7	170	963	62
Sylvie Grégoire	70	93	9	172	231	62
Fritz Hirsbrunner ³⁾	31	173	7	211	6,333	115
Stefano Pessina	–	146	5	151	1,878	97
This E. Schneider	–	226	11	237	3,520	150
Non-executive members of the Board of Directors	366	1,097	71	1,534	14,478	729
Remuneration of the members of the Board of Directors	516	4,767	412	5,695	34,996	729

¹⁾ Other remuneration corresponds to the social security costs due from the member of the Board of Directors but paid by Galenica as well as the employer's contribution to the pension funds. The employer's contributions to social security costs amounted to CHF 350,000

²⁾ The amount is paid to the Centre Hospitalier Universitaire Vaudois (CHUV) in Lausanne

³⁾ The remuneration of Fritz Hirsbrunner also includes the remuneration for services rendered to the Galenica Pension Fund

Registered shares held by related parties of members of the Board of Directors are included in the declaration of the number of shares they hold.

Remuneration of the members of the Corporate Executive Committee in 2015

	Total	of which Søren Tulstrup	of which Jörg Kneubühler
Base salary	2,246	580	500
Bonus in cash	1,321	492	313
Bonus in shares	829	309	196
Long-term Incentive Programme ¹⁾	722	216	186
Contributions to pension funds	359	71	83
Other remuneration ²⁾	70	50	2
Remuneration received	5,547	1,718	1,280
Social security costs	380	116	87
Remuneration of the members of the Corporate Executive Committee³⁾	5,927	1,834	1,367

¹⁾ The performance units falling due after three years are included with the fair value at grant based on the estimated target achievement (IFRS 2)

²⁾ Including private utilisation of company car, reimbursement for relocation as well as tax/legal advice

³⁾ Remuneration to David Ebsworth, former CEO Galenica Group, for services provided to companies in the Galenica Group amounted to CHF 1,086,109

Shareholdings and rights to performance share units of members of the Corporate Executive Committee

	Number of registered shares held as at 31.12.2015 ¹⁾	PSU granted in 2015 (potential vesting at 31.12.2017) ³⁾	Long-term Incentive Programme (LTI) Performance share units (PSU) ²⁾			Total of PSU granted
			PSU granted in 2014 (potential vesting at 31.12.2016) ³⁾	PSU granted in 2013 (potential vesting at 31.12.2015) ³⁾		
Felix Burkhard	843	118	125	225	468	
Jean-Claude Cléménçon	549	144	125	225	494	
Jörg Kneubühler	826	250	206	286	742	
Søren Tulstrup	119	291	128	–	419	
Gianni Zampieri	4,376	167	190	356	713	

¹⁾ Registered shares held by related parties of members of the Corporate Executive Committee are also included in the totals disclosed above

²⁾ Each performance share unit transforms at vesting into one registered share

³⁾ The shares corresponding to the PSU are transferred to the beneficiaries in the subsequent year

For better comparability, the number of performance share units are shown already when granted and not only at vesting after the three-year plan period expires. Included in the table above is the expected number of performance share units that will – based on the current assessment of target achievement – ultimately vest.

Remuneration trend

The overall remuneration to the members of the Board of Directors increased slightly by CHF 131,000 compared to 2015. This rise is mainly the result of full-year recording for two Boards of Directors as well as increased duties due to the change of CEO and the preparations with regard to a potential division of the Group.

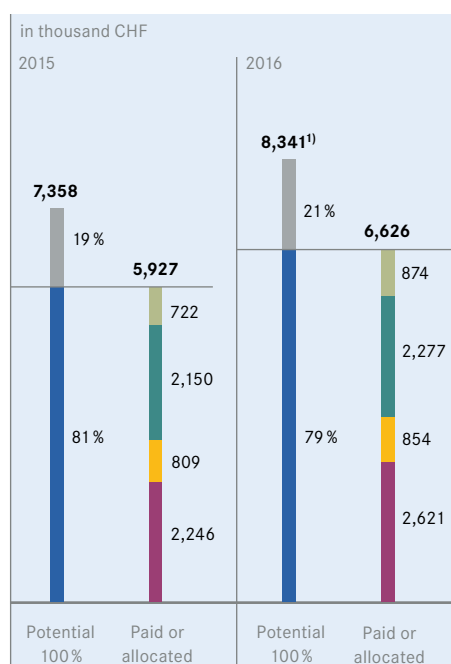
The remuneration of the Executive Chairman has been fixed for the entire period 2012–2020 and thus remains unchanged. The overall remuneration to the members of the Corporate Executive Committee is higher by CHF 699,000 than in the prior year as a result of higher variable remuneration due to the good 2016 result, the promotion of Gianni Zampieri to CEO of Vifor Pharma and the contractually agreed continued salary payments following the resignation of Søren Tulstrup.

Development of maximum possible remuneration and effective pay-out

At the next Annual General Meeting in accordance with Article 19b of the Articles of Association of Galenica the maximum possible remuneration to members of the Board of Directors, the CEOs and the members of the Corporate Executive Committee is again submitted to shareholders for approval prospectively for the business year following the Annual General Meeting and therefore sets an upper limit to possible remuneration taking into account all variable elements including in particular the bonus and the LTI programme (with blocked shares and performance units valued at the grant date). In order to facilitate the assessment of such prospective remuneration, the corresponding amounts for

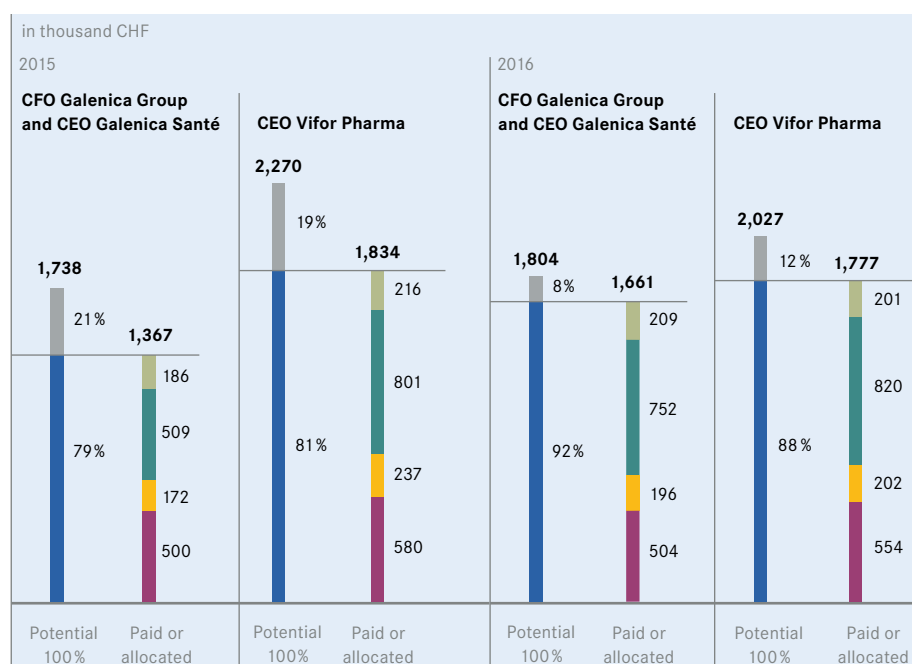
the years 2016 and 2015 are shown on a comparable basis in the table below. The effective pay-out for the period 2015–2016 is much lower than the maximum possible remuneration in those two years and forms the basis for the maximum possible amounts submitted to the Annual General Meeting (including the initial number of performance units allocated as well as deferred bonus valued at the grant date). The remuneration of the CEO in the years 2015 and 2016 on average reached 84.3% of the maximum possible remuneration and the remuneration of the members of the Corporate Executive Committee in aggregate reached 75.8% of the maximum possible remuneration for the same years.

Evolution of remuneration of all the members of the Corporate Executive Committee



¹⁾ Amount approved by the Annual General Meeting increased due to promotion and pursuant to the Articles of Association

Evolution of the highest remuneration paid to members of the Corporate Executive Committee, respectively to the two CEOs



Legend: LTI (Green), STI (Blue), Social insurance and other remuneration (Yellow), Annual base salary (Red)

Report of the statutory auditor on the remuneration report to the General Meeting of Galenica Ltd., Bern

We have audited the accompanying remuneration report (pages 85 to 87) of Galenica Ltd. for the year ended 31 December 2016.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Galenica Ltd. complies with Swiss law and articles 14–16 of the Ordinance.

Bern, 9 March 2017

Ernst & Young Ltd.

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Julian Fiessinger
Licensed audit expert



The exclusive distribution in Switzerland by **Galenica Santé** for Lierac and Phyto of the French Alès Group started in early 2017.

Human Resources



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Culture and values

Stronger together into the future

The Galenica Group has set itself the objective of operating in the market in the form of two strong independent listed companies in future: Galenica Santé and Vifor Pharma. Achieving this will take staying power, openness to change and a constant innovative mindset in particular. The commitment of 8,661 employees demonstrates that they have these specific qualities. Their competence and credibility also create ongoing trust in the products and services of Galenica.

7,458 employees from 92 countries are based in Switzerland. Following the acquisition of Relypsa in September 2016, around 400 employees from the important US market were incorporated into the Galenica Group.

Training and development

Employee development

Productive cooperation requires regular exchange of knowledge between members of Senior Management (MDI) and members of Management (MKA). The company has developed various instruments to encourage this dialogue. At the heart of these is Corporate Management Development (CMD), consisting of events (EVE), special staff training (SAM) and management training (FAB).

Events

EVE is a platform for communicating strategic objectives. In view of forthcoming changes at the Galenica Group, two invitations were issued in spring of 2016: at the EVE 1 event in March 2016, internal speakers informed 225 participants about the division into two independent listed companies planned for the end of 2016; and at the EVE 1 video conference event in May 2016, management addressed employees in Switzerland and abroad, informing them about management changes at Vifor Pharma and the deferral of division plans until 2017. At the EVE 2 event in August 2016, 800 members of Senior Management and members of Management at the Swiss sites came together with local pharmacy managers. Once again, the main issue was the planned

The five key values of Galenica

We participate with **passion** and act as **entrepreneurs**.

We build **trust** through credibility and competence.

We show **respect** and know that **together, we are stronger**.

Vifor Pharma Leadership Academy

The Vifor Pharma Leadership Academy supports the development of young talent and managers at Vifor Pharma, preparing them for new tasks. The Leadership Academy is in three stages. Level One, the VPMP Management Programme, is aimed at team leaders and deals with core aspects of employee management, including: issues that need to be addressed when managing people; available management tools and how to use them; how a manager's behaviour affects those around them; and how to draw up a development plan. The course lasts six months and consists of a combination of personal study, teamwork tasks and classroom training at the Geneva and Glattbrugg sites. Candidates are either existing or potential leaders and the programme has an international focus, so excellent English is essential. The first course involving 22 participants ran from June to November 2016. A second course, with 24 managers, started in September 2016 and will run until April 2017. This course already involves four participants from Relypsa.

Level Two, the VPLP Leadership Programme, is due to be launched in 2017. This is designed for experienced managers and Heads of Business units and covers implementation of business strategy. Preparations for Level Three, the VPEP Executive Programme, are well underway and scheduled to be launched in 2017, or 2018 at the latest.

division. Participants were also informed about current business performance and given a preview of things to come. The Comité des Jeunes presented their future vision for the healthcare market in ten years' time and how Vifor Pharma and Galenica Santé will present themselves in this environment. Stephan Sigrist (futurist, founder and head of the think tank W.I.R.E.) also answered questions on the topic of the healthcare market of the future.

Modular training formats for employees

All new employees are invited to an induction day (SAM 1) to learn about the culture, development and strategies of Galenica and its companies. Additional SAM seminars train participants on various technical and methodological issues. More than 460 employees took part in an induction day in 2016.

Management training

The FAB 1 management training consists of modules in three areas: self-management and management tools; employee management and communication skills; and management and development of teams. FAB 2 relates to performance and health topics, and FAB 3 covers corporate management and change management.

These advanced training courses are aimed at members of Senior Management and members of Management, and are given in collaboration with external partners. More than 200 managers participated in the courses in 2016. A strong corporate culture depends upon the five key values being fully realised in daily life, so they form an integral part of all FAB modules.

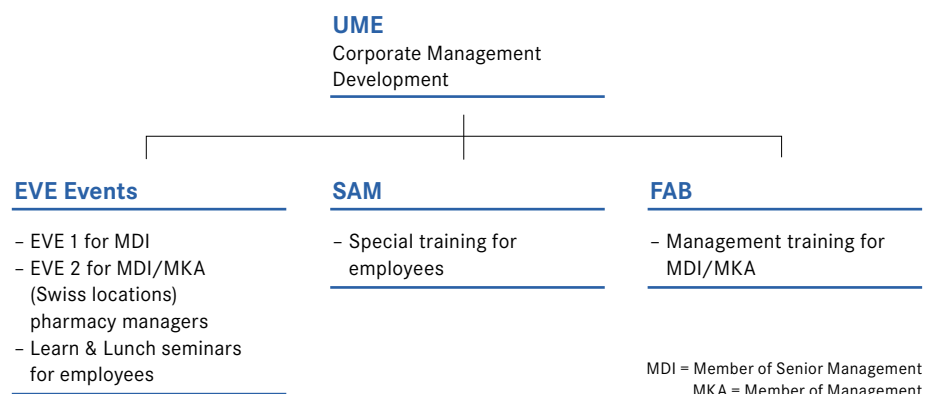
Investing in employees

Galenica offers its employees a range of fringe benefits, with special emphasis on structured training and development. CHF 7.3 million was invested in further training in 2016 (previous year: CHF 5.3 million).

Developing talented individuals

The two-year Talent Management Programme has been very positively received. Participants (mentees) are given a platform through which to communicate across the Business sectors. In parallel, knowledge and skills of experienced employees are made available to help develop the next generation of talented individuals, with each participant being assigned a personal mentor. There were 26 mentees on the programme in 2016. Over the year, Galenica Santé and Vifor Pharma held various organ-

Corporate Management Development



UME includes all activities offered throughout the Galenica Group for the further development of staff and management.

isational workshops in which to discuss individual personal development measures. From 2017, the Talent Management Programme for Galenica Santé and Vifor Pharma will be run separately.

Attracting employees

Certain companies in the Group have expanded their recruitment activities on online platforms over the past two years. In light of the division, planned innovations for centralised recruitment at Galenica Santé have been deferred to 2017 in the form of a pilot project for the Retail Business sector. Given the shortage of pharmacists in Switzerland, recruitment continues to take in neighbouring countries.

Training apprentices

Galenica is putting a lot of effort into training future specialists. In 2016, the Group companies trained 805 apprentices – 736 young women and 69 young men. Of these, 257 completed their apprenticeships, many with flying colours. Once qualified, 100 apprentices have been employed by the Group.

Various communication platforms

Personal and direct exchanges between employees are extremely important. The intranet is also used to inform employees quickly and comprehensively about changes and developments throughout all Group areas. A team of 13 employees in a workshop in Bern created a wooden representation of the symbol that stands for the five key values of the Galenica Group. This artwork is now prominently displayed in the Galenica Ltd. head office's reception area. A video on the Galenica website shows how it was made and includes statements about the key values from those involved. Issues affecting the Group are also covered in detail in the employee magazine Spot. The January 2016 issue focused on strategy and change, while the July 2016 issue presented the annual motto "Keep it simple and stay focused!". Swiss employees receive the magazine at home and there is an online version available for international employees.

Creative thinkers

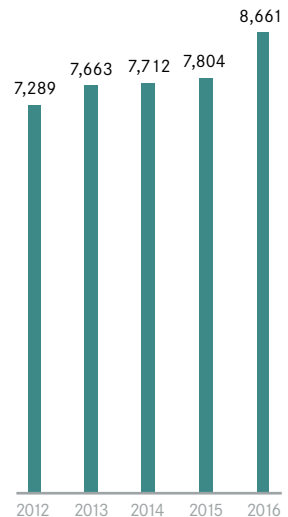
Comité des Jeunes

Galenica encourages exchanges of views between promising young employees and corporate management in an internal think tank, the "Comité des Jeunes". The members, around 35 potential future managers and specialists from various Group companies, help to firmly anchor and further shape the corporate culture. The tasks of the Comité des Jeunes include selecting the annual motto for the Galenica Group and launching measures to make it a firm part of employee thinking.

Keep it simple and stay focused!

As the world becomes increasingly complex, the ability to concentrate on what matters is more important than ever. To communicate the annual motto "Keep it simple and stay focused!" to employees and remind them of it every day, these words were distributed on magnets for display around the workplace. The annual motto for 2016 will be retained in 2017.

Headcount trends 2012–2016



Number of employees in 2016



- Galenica Ltd. 43
- Vifor Pharma 2,487
- Galenica Santé 6,131
 - Products & Brands 107
 - Retail 4,530
 - Services 1,494

Number of women and men in 2016



- Women 6,143 (71%)
- Men 2,518 (29%)

Health and safety

Health

The health of its employees is important to Galenica. Information events on health topics were held in the Group, including a preventive skin-checking campaign in the spring. Galenica also puts measures in place to protect employee health and maintain safety in the workplace in line with the directives of the Federal Coordination Commission for Occupational Safety (FCOS).

New daily sickness allowance insurance

In 2016, the Galenica Group changed to a new insurance partner – Helsana – to cover daily sickness allowances. The switch went smoothly.

Online training with Helsana was offered for the first time at the end of 2016, looking at the issue of appreciation and how this is important for employee health.

Illnesses

Employees were once again able to take advantage of Galenica Care Management in 2016. Employees who are ill or at risk are given support before having to take sick leave. Following illness or an accident, the aim is to facilitate a rapid return to work. 2016 saw 1,039 illness-related absences, a strong fall against the previous year.

Accidents

Based on data from Suva and private insurers, the Galenica accident statistics show an increase in occupational accidents. In 2015, 168 accidents were reported (according to currently available data).

Employee profit-sharing programme

All employees worldwide were once again paid a profit-sharing bonus in 2016. The bonus is calculated based on the Group result compared with the previous year.

Every year, employees of Galenica in Switzerland have the opportunity to purchase a maximum of ten registered shares at a preferential price. These shares are blocked for sale for three years after the date of purchase. In 2016, more than 10% of eligible employees participated in the share purchase programme.

The profit-sharing bonus forms part of the annual bonus for members of Management. This is dependent on attaining quantitative and qualitative targets.

The share-based remuneration programme LTI (see from page 84 in the Remuneration Report) for members of the Corporate Executive Committee and certain members of Senior Management focuses on long-term performance; remuneration is withheld for a period of three years.

Employee benefit plans

Galenica maintains different employee benefit plans based on local conditions and legal stipulations in the corresponding countries. These plans and foundations are legally and financially independent of Galenica.

Employee benefit plans according to Swiss BVG

The vast majority of Galenica employees are insured in Switzerland through pension funds. These pension funds cover the risks and economic consequences of ageing, disability and death according to the specifications of the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG).

Defined contribution plan principle

These company pension funds are managed according to the principle of defined contributions and are generally funded by contributions from the employee and the employer. The contributions made by employer and employee are accrued into individual savings capital for each employee. The savings capital is usually paid out as a lump sum or converted into an annuity on reaching statutory retirement age. In cases of termination of employment, the savings are transferred as vested benefits.

Number of employees worldwide

	2016	2015
Switzerland	7,458	7,084
Europe	712	632
North America	418	10
South America	47	53
Asia	26	25
Total	8,661	7,804

Pension fund reporting

The financial statements of the pension funds of the Galenica Group in Switzerland provide a true and fair view of the financial position, the results of operations and cash flow.

The accounting and valuation principles of the Swiss pension funds correspond to the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV2) and the Swiss GAAP FER accounting and reporting recommendations. Assets and liabilities are recognised on the basis of the financial situation of the pension fund as of the balance sheet date only.

Reporting in the consolidated financial statements, defined benefit plan principle

The recording and assessment of benefit obligations in the consolidated financial statements is in accordance with International Financial Reporting Standards (IFRS). The Swiss pension funds are classed here as defined benefit plans. In addition to recording short-term benefits to employees, benefit obligations for these pension plans following the end of employment are also calculated by actuaries. These actuarial calculations generally result in a lower coverage ratio (ratio of assets to liabilities), but have no impact on the benefits the pension funds pay under their regulations. According to the provisions under BVG, a potential obligation on the part of the employee and the employer to make additional contributions or take remediation measures is only to be assessed if the coverage ratio falls below 100%. This is primarily the case when the liabilities of the pension funds are no longer covered in full by the assets of the pension funds. Further information on reporting and the current coverage ratio can be found in the notes to the consolidated financial statements.

Works Committee

In 2016, representatives of the Galenica Ltd. Corporate Executive Committee and HR management met twice with the Works Committee, which represents all employees of the Galenica Group, to discuss issues that go beyond matters addressed by staff committees in the individual Business sectors that meet several times a year.

Headcount trends

	Number of employees		of which part-time employees <90%		Full-time equivalents	
	2016	2015	2016	2015	2016	2015
Galenica Ltd.	43	45	8	7	40	41
Vifor Pharma	2,487	1,825	151	195	2,410	1,752
Galenica Santé	6,131	5,934	2,511	2,391	4,657	4,628
- Products & Brands	107	85	38	27	93	75
- Retail	4,530	4,447	2,073	1,993	3,330	3,377
- Services	1,494	1,402	400	371	1,234	1,176
Total	8,661	7,804	2,670	2,593	7,107	6,421
Total employees in %			30.8%	33.2%		

Number of managerial employees

	Total number of managerial employees		of which women		of which men	
	2016	2015	2016	2015	2016	2015
Galenica Ltd.	31	33	14	14	17	19
Vifor Pharma	750	604	319	240	431	364
Galenica Santé	553	535	272	264	281	271
- Products & Brands	37	28	17	11	20	17
- Retail	375	372	210	208	165	164
- Services	141	135	45	45	96	90
Total	1,334	1,172	605	518	729	654
Total employees in %	15.4%	15.0%	7.0%	6.6%	8.4%	8.4%

Social responsibility

Social commitment

As a leading player in the Swiss healthcare market, Galenica is committed at all levels to the welfare of patients. The company is also involved in helping organisations and projects. A few examples are listed below:

Ruedi Lüthy Foundation (formerly Swiss Aids Care International). The Galenica Group has supported this foundation with regular donations and contributions in kind since 2005. The foundation was founded in 2003 by Professor Ruedi Lüthy. In Zimbabwe's capital Harare the foundation operates the walk-in Newlands Clinic with mobile outpatient stations, which currently provides treatment to around 6,000 of the poorest HIV patients and trains local specialists. Zimbabwe is one of the countries most affected by the AIDS pandemic, with 1.6 million people currently living with HIV, an estimated 1 million children orphaned as a result of the illness and 40,000 AIDS-related deaths per year.

The Newlands Clinic in Zimbabwe continued to receive everyday material for its onsite clinical staff from GaleniCare in 2016.

Agua Viva. Since 2009, Galenica has been providing financial support to "Agua Viva, the small aid organisation for children". Operating in eastern Brazil, this association helps children in need and arranges sponsorship for children from deprived areas of the cities of Olinda and Paulista. The contributions not only help to provide children with basic nutrition but also go into a fund that is used to finance medical treatment and medication. In Olinda, the association offers an information and contact point for all sponsored children and their relatives via the "Oficina Agua Viva". Here, the children receive food and are given the opportunity to attend daily school lessons. Agua Viva also organises vocational and part-time courses as well as traineeships for children and adolescents from socially disadvantaged backgrounds and offers, via the Oficina, a contact point for people from the region who are in need of help.

Christmas and New Year card 2016. The Galenica Group supported the Sternschnuppe organisation with its Christmas and New Year card for 2016. Children's charity Sternschnuppe is a Swiss non-profit organisation that helps grant the wishes of children under the age of 18 living with an illness, disability or health issues due to a major injury.

La Boule de Neige. Retail and HCI Solutions offer IT support for a vocational school in Burkina Faso with around 60 computers that were donated to the facility in the remote area of Kompienga rather than being disposed of.

GEWA. The GEWA foundation for workplace integration is a social business that aims to integrate people with particular mental challenges into the workplace. The Alloga SC Box had initially been assembled and repaired by Alloga employees – since 2012, this task has been taken over by the GEWA foundation.

Occupational reintegration. For years, Vifor Pharma has been committed to the occupational reintegration of employees expected to be unable to work permanently or for an extended period due to illness. At the end of 2015, Vifor Ltd. in Fribourg was given the Occupational Reintegration Award by the Fribourg Disability Insurance Office.



The product focus in the **Sun Store** pharmacies is non-prescription medicines – such as **Perskindol®**, **Anti-Brumm®**, **Algifor®** and **Triofan®** – as well as beauty and wellness products.

Financial statements



Consolidated financial statements 2016

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The full financial statements are available
at www.galenica.com

Consolidated statement of income

in thousand CHF	Notes	2016	2015
Net sales	7	4,118,370	3,791,586
Other income	8	157,093	153,572
Operating income		4,275,463	3,945,158
Cost of goods and materials		(2,492,905)	(2,333,566)
Personnel costs	9, 25	(777,176)	(659,154)
Other operating costs	10	(516,292)	(415,081)
Depreciation and amortisation	17, 18	(127,571)	(86,599)
Operating costs		(3,913,944)	(3,494,400)
Earnings before interest and taxes (EBIT)		361,519	450,758
Financial income	11	5,735	10,546
Financial expenses	11	(36,418)	(35,783)
Share of result of associates and joint ventures	19	4,695	3,457
Earnings before taxes (EBT)		335,531	428,978
Income tax	12	(11,766)	(58,975)
Net profit		323,765	370,003
Attributable to:			
– Shareholders of Galenica Ltd.		243,627	301,060
– Non-controlling interests		80,138	68,943
in CHF			
Earnings per share	13	37.62	46.47
Diluted earnings per share	13	37.56	46.38

Consolidated statement of comprehensive income

in thousand CHF	Notes	2016	2015
Net profit		323,765	370,003
Hedge transactions			
– change in fair value	29	2,980	(465)
– realised in profit or loss		1,472	3,026
Financial assets available for sale			
– change in fair value	29	15,665	1,372
– realised in profit or loss		–	–
Translation differences		48,511	(30,133)
Income tax		(3,193)	–
Items that may be reclassified subsequently to profit or loss		65,435	(26,200)
Remeasurements of the net defined benefit liability / (asset)	25	51,672	(21,439)
Income tax from remeasurements of the net defined benefit liability / (asset)	12	(11,368)	4,717
Share of other comprehensive income from joint ventures	19	2,371	(3,856)
Items that will not be reclassified to profit or loss		42,675	(20,578)
Other comprehensive income		108,110	(46,778)
Comprehensive income		431,875	323,225
Attributable to:			
– Shareholders of Galenica Ltd.		351,730	254,285
– Non-controlling interests		80,145	68,940

Consolidated statement of financial position

Assets

in thousand CHF	Notes	31.12.2016	31.12.2015
Cash and cash equivalents		180,914	422,196
Securities		2,141	246
Trade and other receivables	14	699,312	581,172
Tax receivables		4,317	634
Inventories	15	432,499	383,807
Prepaid expenses and accrued income		39,964	33,661
Assets held for sale	16	29,574	—
Current assets		26 % 1,388,721	39 % 1,421,716
Property, plant and equipment	17	475,095	450,202
Investment properties	17	4,107	34,722
Intangible assets	18	3,403,126	1,601,416
Investments in associates and joint ventures	19	43,518	40,736
Financial assets	20	87,279	64,971
Deferred tax assets	12	29,655	26,233
Non-current assets		74 % 4,042,780	61 % 2,218,280
Assets		100 % 5,431,501	100 % 3,639,996

Liabilities and shareholders' equity

in thousand CHF	Notes	31.12.2016	31.12.2015
Financial liabilities	22	1,829,387	144,892
Trade and other payables	21	511,159	444,302
Tax payables		58,546	47,728
Accrued expenses and deferred income		234,493	164,723
Provisions	24	3,685	2,257
Current liabilities		49 % 2,637,270	22 % 803,902
Financial liabilities	23	275,147	668,799
Deferred tax liabilities	12	150,802	86,420
Employee benefit liabilities	25	65,870	100,559
Provisions	24	1,382	4,154
Non-current liabilities		9 % 493,201	24 % 859,932
Liabilities		58 % 3,130,471	46 % 1,663,834
Share capital	26	650	650
Reserves		2,123,703	1,878,443
Equity attributable to shareholders of Galenica Ltd.		2,124,353	1,879,093
Non-controlling interests	27	176,677	97,069
Shareholders' equity	28	42 % 2,301,030	54 % 1,976,162
Liabilities and shareholders' equity		100 % 5,431,501	100 % 3,639,996

Consolidated statement of cash flows

in thousand CHF	2016	2015
Net profit	323,765	370,003
Income tax	11,766	58,975
Depreciation and amortisation	127,571	86,599
(Gain)/loss on disposal of non-current assets	(179)	49
(Gain)/loss on disposal of subsidiaries	–	(273)
Increase/(decrease) in provisions and employee benefit assets and liabilities	14,839	9,227
Net financial result	30,683	25,237
Share of result of associates and joint ventures	(4,695)	(3,457)
Other non-cash items	19,227	16,953
Change in trade and other receivables	(116,014)	(36,886)
Change in inventories	1,908	(10,566)
Change in trade and other payables	41,556	14,784
Change in other net current assets	(117,003)	47,346
Interest received	875	1,553
Interest paid	(23,498)	(19,832)
Other financial receipts/(financial payments)	(2,336)	(1,596)
Dividends received	4,815	5,270
Income tax paid	(55,386)	(41,184)
Cash flow from operating activities	257,894	522,202
Investments in property, plant and equipment and investment properties	(78,072)	(68,535)
Investments in intangible assets	(205,089)	(96,342)
Investments in associates and joint ventures	(531)	(1,973)
Investments in financial assets and securities	(10,873)	(4,795)
Proceeds from property, plant and equipment and investment properties	1,921	1,045
Proceeds from intangible assets	–	353
Proceeds from financial assets and securities	5,300	42,544
Purchase of subsidiaries (net cash flow)	(1,254,154)	(42,659)
Sale of subsidiaries (net cash flow)	–	8,223
Cash flow from investing activities	(1,541,498)	(162,139)
Dividends paid	(116,550)	(102,424)
Purchase of treasury shares	(18,111)	(20,264)
Sale of treasury shares	9,788	10,088
Proceeds from financial liabilities	1,490,832	40,594
Repayment of financial liabilities	(323,298)	(101,194)
Purchase of non-controlling interests	(307)	(2,751)
Cash flow from financing activities	1,042,354	(175,951)
Effects of exchange rate changes on cash and cash equivalents	(32)	(442)
Increase/(decrease) in cash and cash equivalents	(241,282)	183,670
Cash and cash equivalents as at 1 January	422,196	238,526
Cash and cash equivalents as at 31 December	180,914	422,196

Consolidated statement of changes in equity

in thousand CHF	Share capital	Treasury shares	Fluctuation in value of financial instruments	Retained earnings	Accumulated translation differences	Equity attributable to shareholders of Galenica Ltd.	Non-controlling interests	Equity
Balance as at 31 December 2014	650	(16,968)	(5,234)	1,827,827	(93,924)	1,712,351	38,143	1,750,494
Net profit				301,060		301,060	68,943	370,003
Other comprehensive income			3,933	(20,578)	(30,130)	(46,775)	(3)	(46,778)
Comprehensive income			3,933	280,482	(30,130)	254,285	68,940	323,225
Dividends				(97,213)		(97,213)	(5,220)	(102,433)
Transactions on treasury shares		(4,976)		(5,655)		(10,631)		(10,631)
Share-based payments				18,258		18,258		18,258
Change in non-controlling interests				2,043		2,043	(4,794)	(2,751)
Balance as at 31 December 2015	650	(21,944)	(1,301)	2,025,742	(124,054)	1,879,093	97,069	1,976,162
Net profit				243,627		243,627	80,138	323,765
Other comprehensive income			16,924	42,675	48,504	108,103	7	108,110
Comprehensive income			16,924	286,302	48,504	351,730	80,145	431,875
Dividends				(116,569)		(116,569)		(116,569)
Transactions on treasury shares		(1,752)		(7,643)		(9,395)		(9,395)
Share-based payments				19,264		19,264		19,264
Change in non-controlling interests				230		230	(537)	(307)
Balance as at 31 December 2016	650	(23,696)	15,623	2,207,326	(75,550)	2,124,353	176,677	2,301,030

The full financial statements are available at www.galenica.com

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