Half year report 2019

of the Galenica Group

GALENICA

Galenica – the first choice for health, beauty and wellbeing

Key figures (unaudited figures)

Net sales

in million CHF

- Health & Beauty[1] 781.4
- Services[1] 1,192.4

EBIT adjusted[2]

in million CHF

- Health & Beauty[1][2] 60.3
- Services[1][2] 22.6

Number of employees

as at 30 june 2019

- Galenica Ltd. 38
- Health & Beauty 5,130
- Services 1,750

in million CHF	1.1.–30.6.2019	1.1.–30.6.2018	Change
Net sales	**1,600.4**	**1,566.1**	**+2.2%**
Health & Beauty[1]	781.4	745.7	+4.8%
Services[1]	1,192.4	1,177.1	+1.3%
EBITDA	**126.7**	**89.4**	**+41.7%**
EBITDA adjusted[2]	**101.8**	**94.2**	**+8.1%**
Health & Beauty[1][2]	70.7	63.4	+11.6%
Services[1][2]	33.0	32.8	+0.7%
EBIT	**82.8**	**70.1**	**+18.1%**
EBIT adjusted[2]	**81.1**	**74.9**	**+8.3%**
in % of net sales	5.1%	4.8%	
Health & Beauty[1][2] in % of net sales	60.3 7.7%	54.3 7.3%	+11.0%
Services[1][2] in % of net sales	22.6 1.9%	22.3 1.9%	+1.2%
Net profit	**64.9**	**56.5**	**+15.0%**
Net profit adjusted[2]	**65.0**	**60.4**	**+7.6%**
Investment in property, plant and equipment and intangible assets	24.7	21.4	+15.7%
Employees at reporting date (FTE)	5,324	4,891	+8.9%

in million CHF	30.6.2019	30.6.2018	Change
Equity ratio	41.3%	45.8%	
Equity ratio adjusted[2]	49.8%	47.7%	
Capital contribution reserves	396.1	479.9	–17.5%
Net debt adjusted[2]	416.5	350.7	+18.8%

Share information

in CHF	30.6.2019	31.12.2018
Share price at reporting date	49.00	43.28
Market capitalisation at reporting date in million CHF	2,414.2	2,128.4
Shareholders' equity per share at reporting date	18.51	18.93
Earnings per share 1.1.–30.6.	1.32	1.15
Earnings per share adjusted 1.1.–30.6.[2]	1.32	1.23

[1] Reported for each Segment not taking into account Corporate and Eliminations
[2] Excluding the effects of IAS 19 and IFRS 16 (refer to chapter alternative performance measures from page 17 onwards)

Content

Half year report 2019

Alternative performance measures

Following the introduction of the new IFRS 16 lease accounting standard, the half year report 2019 marks the first time that Galenica is publishing alternative performance measures that can be used to compare financial reporting with previous periods. In this way, Galenica ensures that its financial reporting is transparent.

Detailed information can be found in the Alternative performance measures chapter of this report from page 17.

Reliable and dynamic partner in the Swiss healthcare market

Daniela Bosshardt-Hengartner, Chairwoman of the Board of Directors, Jean-Claude Clémençon, CEO

Dear Shareholders,
Ladies and Gentlemen,

Galenica can look back on a successful first six months of 2019. We have created added value for our stakeholders. This was achieved thanks to consistent implementation of our strategy, with dynamic further expansion of our pharmacy network, significant acquisitions and ongoing measures to increase efficiency within the Group as a whole. Galenica ensures via various sales channels that medications reach the right place or patient at the right time and in the right quantity. At the same time, we are developing successively new, complementary services and solutions to meet the increasingly diverse needs of our patients, customers and business partners. This is done in close collaboration and conjunction with all players in the healthcare market.

The combination of these activities is crucial to the long-term success of the Galenica Group because market conditions continue to be challenging. Further federal price reduction measures for medications in 2018 continued to have a negativ impact of the Galenica Group's figures in the first half of 2019. This trend is set to continue. We will continue to be challenged in the future to offset falling medication prices and margins with additional services and efficiency savings.

Our efforts are supported by official and political decisions, which recognise and aim to strengthen expertise in the healthcare market. The revised Therapeutic Products Act entered into force at the start of 2019. The decisions associated with this regarding which medicines can still only be dispensed by doctors and the specialist trade – pharmacies and drugstores – are a clear commitment to patient safety and trust in the competence of the specialist trade, which they strengthen. We also consider the decision by the Federal Council to extend the tariff agreement for service-based remuneration for pharmacists (SBR IV) to the end of 2021 at the request of the negotiating partner to be positive, as this gives more time to work out the details.

Expansion in home care

On 1 May 2019, we acquired a majority stake in the Bichsel Group. The company, which is domiciled in Interlaken, specialises in the manufacture of individual medicines and medical devices as well as home care services in the field of home nutrition and home dialysis. We have thus further strengthened our leading position in the attractive and growing market of home care for patients. Mediservice also contributed to this expansion through its acquisition of Curarex Swiss, a Swiss organisation specialising in the provision of home-based therapy support for patients with advanced Parkinson's disease.

The future is "Omni-Channel"

Through our own and partner pharmacies, we not only ensure customer and patient proximity, but also offer our business partners an attractive distribution network, which is the largest in Switzerland. We further optimised and expanded our pharmacy network in the period under review. In the meantime, it has gathered 508 own and partner pharmacies.

At the same time, we are endeavouring to reach patients and customers everywhere they want to be reached. This includes digital channels. We are further expanding our e-commerce business activities and services such as Click & Collect accordingly. A third channel is patient home care and the expansion and further development of both personal and digital care services. The further development and expansion of the various channels brings our vision of being able to offer customers omni-channel in the near future a step closer. By this, we mean skilful and comprehensive networking of various information, ordering, delivery and collection options combined with on-site services

Key figures for the Galenica Group, first half of 2019

Significantly stronger growth than the market

The Galenica Group increased consolidated net sales by 2.2% to CHF 1,600.4 million in the first half of 2019. Although sales growth continued to be affected by the ongoing effects of the federal price reduction measures from 2018, Galenica posted significantly stronger growth than the market (0.9%, IQVIA, Pharmaceutical Market Switzerland, first half of 2019), thanks, among other things, to strong expansion. All Business sectors contributed to this development.

Improvement of profitability and earnings

The operating result (EBIT) increased by 18.1% to CHF 82.8 million. EBIT increased by CHF 1.4 million due to the impact of the new lease accounting standard (IFRS 16) and by CHF 0.3 million due to the impact of IAS 19 (Pension Fund). On a comparable basis, that is excluding these effects, adjusted[1)] EBIT increased by 8.3% to CHF 81.1 million. Adjusted[1)] return on sales (ROS) improved from 4.8% to 5.1%, and adjusted[1)] net profit rose by 7.6% to CHF 65.0 million.

Investments totalled CHF 24.7 million (first half of 2018: CHF 21.4 million), and were made, among other things, in the Services Business sector to introduce the new ERP system and to modernise the distribution centre in Lausanne-Ecublens, and in the Retail Business sector for the rebuilding and renovation of pharmacies.

2019 forecast slightly raised

Due to the good half-year results, the sales and earnings forecast for the current financial year 2019 as a whole has been raised slightly: Galenica expects consolidated net sales for the Group as a whole to grow by between +1% and +3%, with sales growth of between +4% and +6% in the Health & Beauty segment and at the prior-year level up to +2% in the Services segment. The adjusted operating result (EBIT; excluding the effects of IAS 19 and IFRS 16) should increase by +5% to +7%. Due to the adoption of the new lease accounting standard IFRS 16, Galenica expects an additional increase in EBIT of CHF 2 million to 3 million. Proposal of a dividend of at least the same level as the prior year (CHF 1.70 per share) to the 2020 Annual General Meeting is planned.

[1)] Refer to chapter alternative performance measures from page 17 at the pharmacy, via online channels or at home. In doing so, we are applying the progress in digitalisation at all levels of trade, with the focus consistently on patients and their changing needs and habits.

Verfora: a strong partner for specialist trade

Following the change of name in mid-2018, Verfora continued to focus in the first half of 2019 on positioning itself as a strong, competent and reliable partner for pharmacies and drugstores. An extensive advertising campaign to boost specialist trade and the launch of the new own derma-cosmetic brand Dermafora® contributed to this.

Investments in the Services segment for greater efficiency

Alloga initiated the switch to the new enterprise resource planning (ERP) system as planned in the period under review. A first pharma customer was introduced in June 2019.

The Galexis distribution centre in Lausanne-Ecublens will be extensively renovated and modernised so that it is prepared for a higher level of automation for future volumes and to ensure that operations remain GDP (Good Distribution Practice) compliant. By investing some CHF 30 million in this project, the Galenica Group is also making an important contribution to the availability of medications across Switzerland and to security of supply to patients. The relevant building application was approved in July 2019. Construction work is scheduled to begin in the third quarter of 2019.

New composition of the Board of Directors

At the second Annual General Meeting of Galenica Ltd. in May 2019, the shareholders approved all the proposals submitted by the Board of Directors. Former Board member Daniela Bosshardt-Hengartner was elected as the new Chairwoman and Markus R. Neuhaus was elected as a new member of the Board.

Outlook

The newly acquired Bichsel Group will be integrated gradually into the Retail Business sector; the companies will continue to operate in the market under their existing names. At the same time, we will purposefully continue to pursue the development and expansion of our three business-to-consumer channels: pharmacies, online and home care.

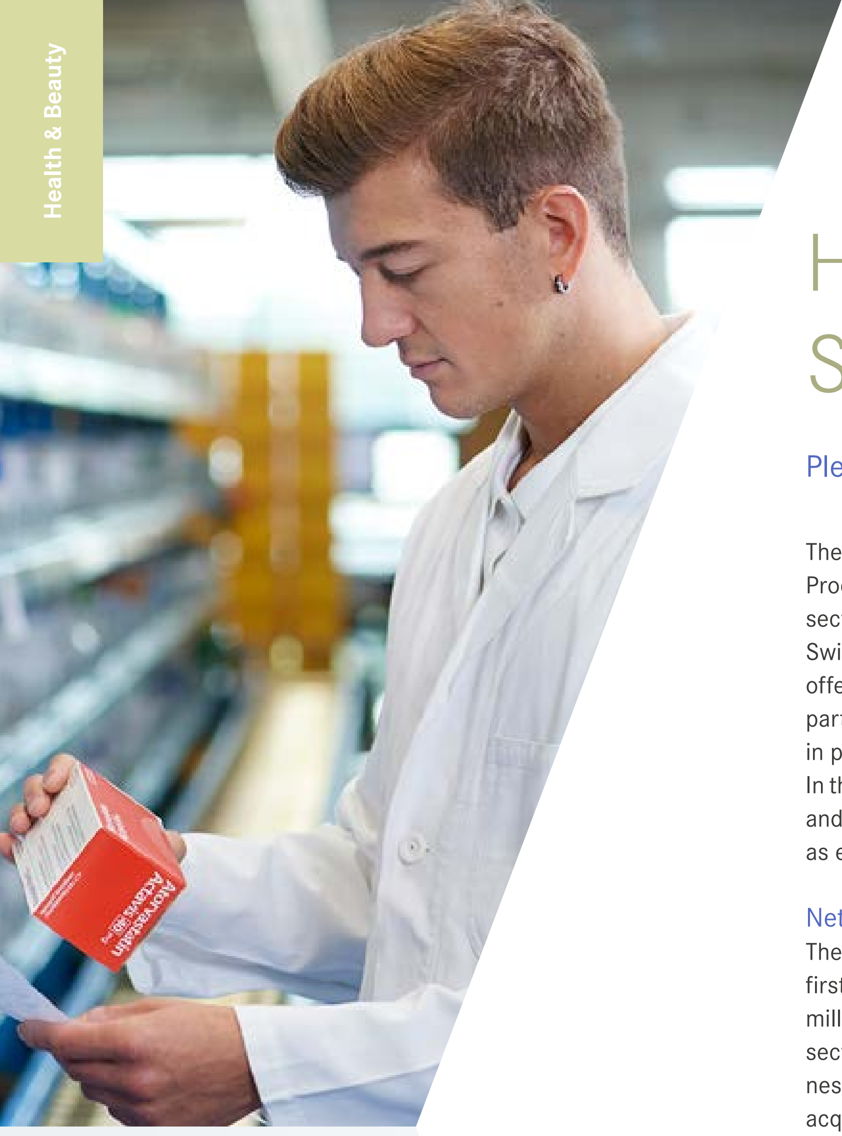
Verfora will again prove itself to be a strong partner for specialist retailers in the second half, and continually expand and optimise both its own product portfolio and the partner and licensed products offering. Digital communication channels will increasingly be used in sales activities, which will also support specialist trade.

The Retail and Products & Brands Business sectors will be able to depend on professional support from Services companies, just like all our other customers and partners, pharmacists, drugstores, doctors, hospitals and care homes. Through investments such as that in the new ERP system and the modernisation of the distribution centre in Lausanne-Ecublens, we are not only equipping the Services Business sector for the future but also strengthening it in terms of improving efficiency. Both of these projects will continue to have top priority in the second half of 2019. HCI Solutions will further establish the e-medication solution Documedis® in the market and also incorporate it into the local systems of service providers (e.g. hospitals, doctors). There are also plans to incorporate the digital e-mediplan into the Group's own Triapharm® pharmacy software. In this way we want to make a significant contribution to transparency in the medication process for the benefit of customers and in the overall cooperation with all service providers.

We would like to thank our employees for their daily commitment and you, our valued shareholders, for your trust.

Bern, 6 August 2019

Daniela Bosshardt-Hengartner Chairwoman of the Board of Directors	Jean-Claude Clémençon CEO



Health & Beauty Segment

Pleasing growth in sales and profitability

The Health & Beauty segment comprises the Retail and Products & Brands Business sectors. In the Retail Business sector, Galenica operates the largest pharmacy network in Switzerland, giving it an excellent distribution network that offers unique potential for the sale of own, exclusive and partner brands. Retail's products and services are offered in pharmacies, online and to patients at home (home care). In the Products & Brands Business sector, Galenica develops and markets its own consumer brands and products as well as exclusive brands and products of its business partners.

Net sales and operating result

The Health & Beauty segment increased net sales in the first half of 2019 by 4.8% to CHF 781.4 million, CHF 726.1 million of which was accounted for by the Retail Business sector and CHF 54.1 million by the Products & Brands Business sector. The sales growth was due primarily to the acquisition of the "Bahnhof Apotheke Zurich" in July 2018, to the strong expansion of the pharmacy network in the first half of 2019 and to the acquisition of the Bichsel Group in May 2019.

The adjusted[1] operating result (EBIT), that is excluding the effect of the new lease accounting standard IFRS 16, increased by 11.0% to CHF 60.3 million. The first-time adoption of IFRS 16 additionally increased EBIT by CHF 1.3 million to CHF 61.6 million.

Adjusted[1] return on sales (ROS) improved 0.4 percentage points to 7.7% (first half of 2018: 7.3%). This very good development is testament, on the one hand, to the effectiveness of the ongoing efficiency improvements in the segment, which include, for example, the intensive collaboration between the the Retail and Products & Brands Business sectors, and on the other hand, to the expansion of the business activities, such as the continuing development of the pharmacy network and of the product portfolio.

Investments in the Health & Beauty segment totalled CHF 8.6 million (first half of 2018: CHF 5.4 million) and were principally used for the rebuilding and renovation of pharmacies as well as for IT projects.

Alongside the improvements in efficiency mentioned, the acquisition of the Bichsel Group was an important milestone for the Retail Business sector. It strengthened Galenica's leading position in the attractive market of home care for

781.4 Net sales in million CHF

Galenica Group CHF 1,600.4 million

60.3 EBIT adjusted[1] in million CHF

Galenica Group CHF 81.1 million

5,130 Number of employees

Galenica Group 6,918

[1] Refer to chapter alternative performance measures from page 17

patients. Mediservice also made an acquisition in the first half of 2019: Curarex Swiss, an organisation specialising in in-home medicinal care of Parkinson's patients. The online offering was also consistently further expanded both as regards the product range and the pharmacy app options.

The business activities of Products & Brands focused, among other things, on the launch of the new derma-cosmetics range Dermafora® as well as successfully taking over distribution of the well-known Vicks® and Metamucil® products. The further positioning of Verfora as a strong, reliable partner for specialist trade was also a priority.

Retail Business sector

Strong reinforcements in home care

Net sales development

The Retail Business sector increased net sales in the first half of 2019 by 4.3% to CHF 726.1 million (excluding Coop Vitality).

The number of own pharmacies as of the end of June 2019 was 353 locations (+8 compared to the end of 2018). The increase in the number of pharmacies accounted for 5.1% of the sales increase. On a comparable basis, the sales performance was slightly negative at –0.7%, as it was not possible to fully offset the effects of the federal price reduction measures introduced in 2018. The government-mandated price reduction measures for medications had a negative impact of 1.9% on sales growth. Excluding these price reductions, organic growth (excluding expansion effects) would have amounted to a pleasing 1.2%. Generic substitution, which is actively promoted by Galenica, also curbed sales because of the lower medication prices.

By way of comparison, medication sales (Rx and OTC products) in the Swiss pharmacy market as a whole declined by 2.1% over the same period (IQVIA, Pharmaceutical Market Switzerland, first half of 2019). Sales of other products (non-medications) declined only slightly by 0.4% (IQVIA, Personal, Patient Care and Nutrition, first half of 2019).

Strong expansion of the pharmacy network

Retail was again extremely active in terms of further optimisation of the pharmacy network in the period under review: 13 pharmacies were added compared to the end of 2018, comprising 4 new openings and 9 acquisitions. The latter included the ideally located pharmacy in Interlaken from the acquisition of the Bichsel Group on 1 May 2019. The pharmacy is one of the major manufacturers of magistral prescriptions (medicines manufactured for specific patients) in Switzerland and will continue to be run under the same name. At the same time, 5 locations were closed down as part of optimisation measures. Together with the independent Amavita and Winconcept partner pharmacies, the Galenica pharmacy network comprised 508 points of sale throughout Switzerland as of the end of the first half of 2019 (see table, page 11).

Expansion in home care services

On 1 May 2019, the Galenica Group acquired a majority stake in the Bichsel Group, a specialised Swiss company with a strong focus on the manufacture of individual medicines and medical devices as well as home care services in the field of home dialysis and home nutrition. The companies of the Bichsel Group are integrated into the Retail Business sector and continue to operate on the market under the same known name. This transaction strengthened Galenica's leading position in the attractive and growing market of home care for patients.

New offering for Parkinson's patients

Specialty pharmacy Mediservice, which specialises in home care of chronically ill patients, also further expanded its neurology offering in April 2019 with the acquisition of Curarex Swiss: a Swiss organisation specialising in the provision of home-based therapy support for patients with advanced Parkinson's disease and enabling them to live independent day-to-day lives. Curarex Swiss will continue to be run as an independent unit with its proven team, under the direction of Mediservice.

Investments into closeness to customers in practice

As part of closeness to customers in practice, investments were also made in the individual pharmacy formats in the first half of 2019. For example, Amavita developed a new slogan, "Amavita, my pharmacy" for its market presence and launched the magazine "My skin" to position itself more strongly as a competent skin expert. Winconcept, the Galenica Group's service provider for independent pharmacies and drugstores, presented a new, fresh logo to the market in the first half of 2019. The "Process One" quality management system, offered by Winconcept, enjoys continuing popularity.

A further Derma-Center, the first of which was opened at the Amavita pharmacy in the Metro shopping centre in Geneva in 2017 in collaboration with L'Oréal Cosmétique Active, was opened in an adapted form based on feedback from customers at the Amavita branch in Lausanne-Ecublens in the period under review. A further Derma-Center is scheduled to be opened in German-speaking Switzerland in the second half of 2019.

New ownership for Aprioris

Galenica launched the Aprioris walk-in clinic in 2017 as a pilot project to break new ground in emergency medical assistance. The evaluation of the pilot has shown that the concept would only be successful in the long term if it were based on extensive interprofessional collaboration and were able to depend on close collaboration and support from other involved players in the healthcare market. To make it possible to establish such partnerships outside of the Galenica Group, Galenica transferred the majority shareholding in Aprioris to an independent company in May 2019. Galenica continues to have a minority stake and will support the company wherever possible and reasonable, for example with the continued operation of the location in the Amavita pharmacy in Adliswil, near Zurich.

Expansion of the online range

The range in the Amavita, Sun Store and Coop Vitality online shops with the integrated online ordering and pick-up service "Click & Collect" was further expanded in the period under review: as of the end of June 2019, over 40,000 products were available. The collaboration with online shop Puresense for near-natural or certified natural cosmetics, which began with a minority stake in 2018, was launched successfully. Since early 2019, the online shops have also been specifically advertised at the pharmacy points of sales, and customers made aware of the complementary range available online. In this way, Galenicare is accommodating changing customer needs while also supporting its business partners in meeting these changes in the market appropriately.

Collaboration across the Group

A great deal of the progress achieved in the first half of 2019 is based on the close, trusting collaboration within the Group. This includes, for example, the successful collaboration with the Products & Brands Business sector on the launch of the new own derma-cosmetic brand Dermafora® as well as on the distribution of complementary medical products from Spagyros and numerous international brands such as Lierac and Adler's Schüssler mineral salts. With the Services Business sector, orders and deliveries for own pharmacy formats were again better coordinated with the requirements of Galexis customers in the first half of 2019 to avoid bottlenecks and overcapacity at Galexis.

With HCI Solutions, the "Primary Care" project was driven forward. This project enables pharmacists from own formats to meet the extended requirements concerning documentation of their advice to patients well and efficiently and complete the necessary training modules for this. In addition, the e-mediplan module, which was previously only included in the Amavita smartphone app, was also incorporated into the Sun Store and Coop Vitality apps in the period under review. E-mediplan offers a range of practical functions including automatic reminders to take medication and a full overview of an individual's stock of medications.

Own pharmacies and shareholdings

	30.6.2019	31.12.2018	Change
Amavita pharmacies[1]	169	163	+6
Sun Store pharmacies[1]	96	97	–1
Coop Vitality pharmacies[2] (joint venture with Coop)	80	78	+2
Mediservice specialty pharmacy[1]	1	1	–
Majority holdings in other pharmacies[1]	7	5	+2
Minority holdings in other pharmacies[2]	–	1	–1
Total own points of sale	**353**	**345**	**+8**

1) Fully consolidated
2) Consolidated at equity

Independent partners

	30.6.2019	31.12.2018	Change
Amavita partnerships	7	7	–
Winconcept partner pharmacies	148	149	–1
Total independent partners	**155**	**156**	**–1**

Products & Brands Business sector

Top position in the Swiss consumer healthcare market expanded

Net sales development

The Products & Brands Business sector, which mainly comprises the business activities of Verfora, posted net sales of CHF 54.1 million, a pleasing rise of 11.1% compared to the prior-year period. This performance was attributable, among other things, to the strong market position of Algifor® and Triofan®, which improved further in the period under review, and to the responsibility for the distribution in Switzerland of the well-known Vicks® products (for colds, flu and coughs), and of Metamucil®, which was successfully taken over from Procter & Gamble in early 2019. The advertising campaign launched in autumn 2018, including TV ads to position Verfora, also had a positive impact on sales growth for the products featured. The flu season was average compared to previous years, and the 2019 hay fever season was milder than the prior year.

Products & Brands increased net sales in the Swiss market by 13.6% to CHF 42.4 million, thereby exceeding growth of 0.1% in the Swiss consumer healthcare market (IQVIA, Consumer Health Market Switzerland, first half of 2019). Thus Verfora, which became the number one company in the total Swiss consumer healthcare market in the third quarter of 2018, was able to successfully further expand this position in the period under review (IQVIA, Consumer Health Market Switzerland, first half of 2019).

Export sales were CHF 11.7 million, 3.0% more than in the first half of 2018 – primarily due to strong sales of Perskindol® in Asia and Anti-Brumm® in Europe.

Verfora established in the market

Verfora was able to position itself as a strong, reliable partner for all pharmacies and drugstores in the first half of 2019. This was achieved not only due to the well-known Verfora brands and products but also the successful interplay between sales advice and specialist training at the points of sale. As part of the renaming of Vifor Consumer Health to Verfora in June 2018, packaging was redesigned and a new advertising image launched in the second half of 2018. This advertising campaign was successfully further rolled out in the period under review, focusing on TV ads and presence at points of sale. The focus will be more heavily on the Internet as a further medium in the second half of 2019.

Successful launch of Dermafora®

The launch of the new own derma-cosmetic brand Dermafora®, which has been available in Amavita and Sun Store pharmacies since the beginning of 2019 as well as in selected Coop Vitality pharmacies since the second quarter of 2019, was particularly important for Verfora in the period under review. The launch of Dermafora® and the related training for employees were designed and implemented in close collaboration and consultation with the Retail Business sector; the upcoming measures to further establish the brand in the market will also be carried out together.

Good demand for complementary medicine

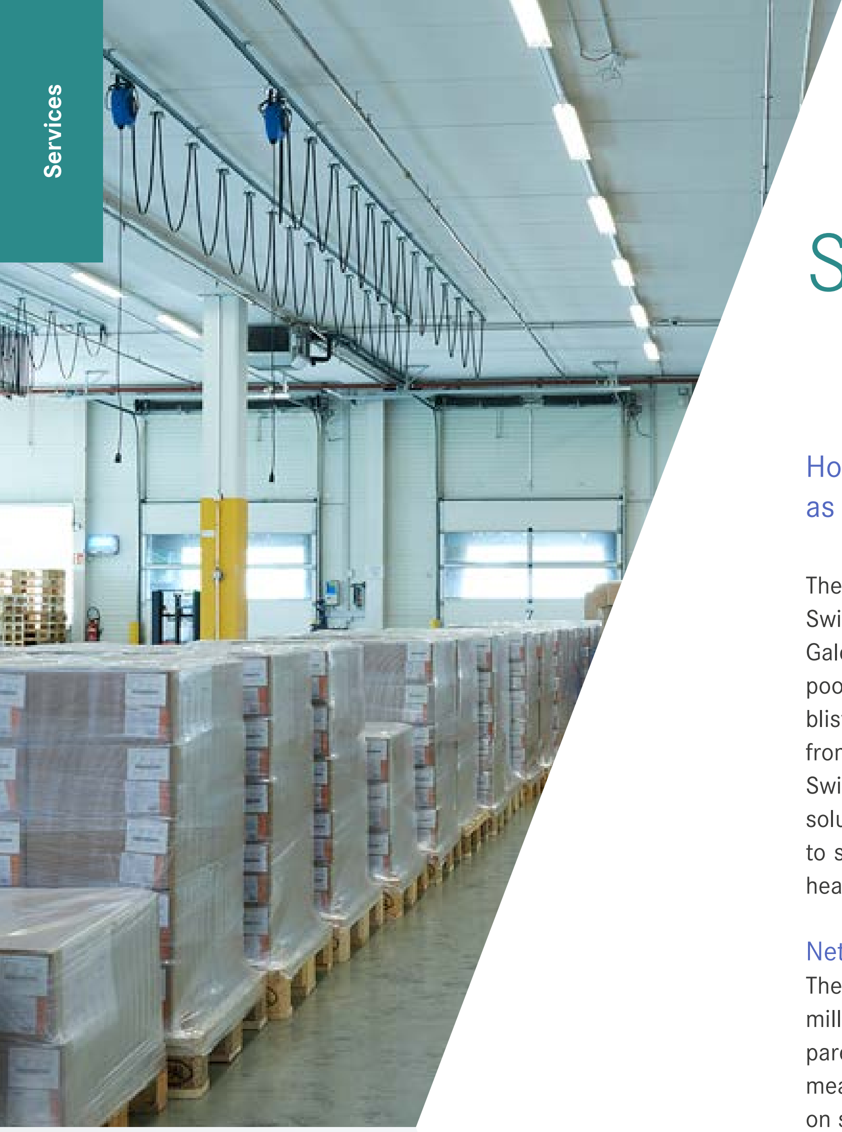
The good collaboration with Retail also proved its worth with the strategic partnership that began in 2018 between Verfora and Spagyros, a Swiss GMP-certified manufacturer of complementary medicinal products. The Adler Schüssler mineral salts portfolio, which is distributed by Products & Brands, also performed positively. Thanks to targeted training and continuing education on the Spagyros and Adler product ranges, employees in the specialist trade have the expertise to offer their customers comprehensive advisory services regarding the complementary medicine portfolio, which is already in good demand.

Good performances for Algifor® and Triofan®

The systemic pain relief medication Algifor® performed nicely in the first half of 2019, again exceeding OTC market growth; the market share gained in 2018 due to supply constraints of other products in the market was maintained and expanded further. Triofan® maintained its strong market position as the number one nasal decongestant in Switzerland. Overall, Verfora was able to build on its strong position in the market for nasal products, with the launch of a new Triomer® spray for colds also contributing.

Specialist trade first

Pharmacies and drugstores continue to be a trusted source of advice on health and beauty products. Verfora is continuing to focus on this sales channel and is consistently expanding its product portfolio accordingly. In parallel, the digital presence is being future-proofed. One particular concern here is to become significantly more visible to consumer on relevant health topics on the Internet. The aim is to provide customers and consumers with better, more comprehensive information on the Verfora portfolio and further increase recognition of own and third-party brands.



Services Segment

Hospitals and high-priced medicines as market drivers

The Services segment comprises logistics services for the Swiss healthcare market from Alloga (pre-wholesale), Galexis, Unione Farmaceutica Distribuzione and Pharmapool (wholesale), as well as Medifilm, which is active in drug blister packaging. These are complemented by services from HCI Solutions, which provides master data for the Swiss healthcare market and offers management software solutions for pharmacies. HCI Solutions also develops tools to securely manage, communicate and distribute sensitive health data and improve patient safety.

Net sales and operating result

The Services segment generated net sales of CHF 1,192.4 million in the first half of 2019, an increase of 1.3% compared to the prior-year period. The federal price reduction measures madated in 2018 continued to impact negatively on sales in the period under review. Excluding the effect of the price reduction measures for medications by the authorities (–2.6%), sales growth would have amounted to a pleasing 3.9%. This was achieved in an overall market whose slight growth (+0.9%, IQVIA, Pharmaceutical Market Switzerland, first half of 2019) was driven especially by the positive sales performance of hospitals (+4.2%, IQVIA, Pharmaceutical Market Switzerland, first half of 2019) as well as by high-priced special medications that are usually not supplied via wholesale but directly to specialist doctors (doctors: +3.7%, IQVIA, Pharmaceutical Market Switzerland, first half of 2019).

The adjusted[1)] operating result (EBIT), i.e. excluding the effects of the new lease accounting standard IFRS 16, was CHF 22.6 million (+1.2%). The impact of CHF 0.1 million from the first-time adoption of IFRS 16 had no significant effect on the EBIT of CHF 22.7 million (+1.6%, first half of 2018: CHF 22.3 million). Adjusted[1)] return on sales (ROS) remained stable at 1.9%. Investments in the first half of 2019 amounted to CHF 16.3 million and were used in particular for the new enterprise resource planning (ERP) software that is being rolled out progressively at Alloga and Galexis and for the modernisation and renovation project at the Galexis distribution centre in Lausanne-Ecublens.

1,192.4 Net sales in million CHF

Galenica Group CHF 1,600.4 million

22.6 EBIT adjusted[1)] in million CHF

Galenica Group CHF 81.1 million

1,750 Number of employees

Galenica Group 6,918

[1)] Refer to chapter alternative performance measures from page 17

Services Business sector

Focus on customers thanks to high quality and expansion of services

Pre-wholesale company Alloga achieved a milestone in the switch to the new enterprise resource planning (ERP) system in the period under review: successful migration of the first pharma customer took place in June 2019. Preparations for the transfer of further business partners are in progress. Alloga is continuing to focus on carefully implementing and pushing ahead with this project, which is strategically and operationally important for the entire Galenica Group.

Galexis in Ecublens: contribution to ensuring security of supply

The Galexis distribution centre in Lausanne-Ecublens will be extensively renovated and modernised to significantly increase the level of automation and correspond to the even more stringent regulations in the future. By investing some CHF 30 million in this project, the Galenica Group is also making an important contribution to the availability of medications across Switzerland and to security of supply to patients. The relevant building application was approved in July 2019. Construction work is scheduled to begin in the third quarter of 2019.

The “Felan” own brand range for independent pharmacies, comprising cost-effective OTC products such as medicines containing paracetamol, that was launched at the end of 2018 has been well received and will be expanded in the second half of 2019.

In light of increasing regulatory requirements and cost pressure, more and more drug and cosmetics manufacturers wish Galexis to take on regional distribution of products instead of undertaking direct distribution themselves. Thus, the manufacturers use the logistic competence of Galexis to supply their customers. Two partners will take advantage of this service from Galexis for the first time in the second half of 2019.

Guaranteed quality despite volume growth

Thanks in particular to gaining further customers, Unione Farmaceutica Distribuzione (UFD) posted extremely pleasing growth in the first six months of 2019. Demand for services also grew in the period under review: this included in particular the “e-box”, a logistics solution for online shops that has been offered by UFD throughout Switzerland since 2017. With the “e-box”, UFD guarantees associated online shops all logistics processes that arise – from processing customer orders to handing over the package to the courier.

Medifilm blisters for more than 10,000 patients

As of the end of June 2019, Medifilm had more than 10,000 patients benefiting from its services for the first time. In doing so, Medifilm is making a significant contribution to correct administration and taking of medications, and thus to patient treatment compliance and easing the burden on carers. This includes, for example, information on the medications with which the patient is being treated but which are not included in the medifilm, such as eye drops or ointments, now being printed on the medifilms.

Documedis® integrated into e-health platforms

HCI Solutions created a complete set of images for all products available in the Amavita, Sun Store and Coop Vitality online shops to a uniform standard.

The e-medication solution Documedis® is also being used in the local systems of service providers (e.g. hospitals, doctors) and incorporated into the e-health platforms of various healthcare networks. These include organisations such as Cara (cantons of Fribourg, Geneva, Jura, Vaud and Valais) and Axsana (Zurich, Bern, Northwest Switzerland, Central Switzerland, St. Gallen and Schaffhausen) that create so called “reference communities”. These reference communities are certified by the Federation and can then offer an electronic patient dossier under federal legislation.

HCI Solutions is planning to launch “Quickshop” in the second half of 2019 – an online shop for independent pharmacies via which they can, for example, offer among other things their house specialties. At the same time, HCI Solutions will support Galenicare with the further development and the use of the digitised medication plan “E-Mediplan”, which is incorporated in the Amavita, Sun Store and Coop Vitality smartphone apps.

Interim financial statements 2019

Alternative performance measures 2019

Definitions of alternative performance measures

The annual report, the half year report and other communication to investors contain certain financial performance measures, which are not defined by IFRS. In addition to information based on IFRS, management uses these alternative performance measures to assess the financial and operational performance of the Group. Management believes that these non-IFRS financial performance measures provide useful information regarding Galenica's financial and operational performance. Alternative performance measures are used in Galenica's value-based management as the basis for management's incentive and remuneration schemes. Such measures may not be comparable to similar measures presented by other companies. The main alternative performance measures used by Galenica are explained and/or reconciled with the IFRS measures in this section. The alternative performance measures are unaudited.

IAS 19 – Employee benefits

The pension plans of Galenica are organised in legally independent pension funds and are based purely on the defined contribution principle as stated in the Swiss "BVG" law. Nevertheless, Galenica's pension plans are classified as defined benefit pension plans under IAS 19.

Galenica's management is of the opinion that this accounting treatment can lead to discussions of the financial statements and performance indicators of the Galenica Group. For this reason, Galenica also evaluates its performance by adjusting personnel costs as if those plans were defined contribution plans (adjustments for the effects of IAS 19). For these adjustments, the costs of defined benefit plans and long-service awards determined in accordance with IAS 19 are replaced by an expense based on the employer's contribution and long-service awards for the period of service.

IFRS 16 – Leasing

Since 1 January 2019 lessees have to account for most leases on balance sheet by recognising lease liabilities and corresponding right-of-use assets. The right-of-use assets are depreciated over the lease term and the lease liabilities generate interest expense in the statement of income. Variable lease payments, not dependent on an index or rate, such as sales-based rental expenses are accounted for as operating expenses when they are incurred. With its large network of retail pharmacies, the introduction of IFRS 16 has a significant impact on Galenica's balance sheet and the presentation of lease related expenses in the consolidated statement of income.

Galenica has lease agreements with fixed and variable lease payments and these payments affect various line items in the statement of income making comparisons across individual pharmacies and points-of-sale difficult. For this reason management also monitors results by adjusting the statement of income and balance sheet as if lease agreements were still accounted for as operating leases, e.g. all lease expense is presented in other operating costs on a straight-line basis and the depreciation of the right-of-use assets and the interest expense on the lease liabilities are removed. Income taxes are also adjusted accordingly.

These adjustments allow management to evaluate results with periods prior to the introduction of IFRS 16. In addition, IFRS 16 adjusted measures are important for Galenica's value-based management and therefore for management's incentive and remuneration schemes. As the type and duration of rental agreements under IFRS 16 have a significant influence on the invested capital and accordingly on the return on invested capital (ROIC) and on the Galenica economic profit (GEP), the invested capital is stated after removing lease liabilities. This minimises the risk that management makes decisions that are not in the interest of Galenica due to false incentives when concluding leases.

Organic sales growth

Organic sales growth shows the development of net sales of the business sectors Retail and Services excluding the effects of acquisitions and disposals (effect of expansion). It provides a “like-for-like” comparison with previous periods. In the Retail business sector, organic sales growth is calculated only including points of sale with a full year period comparison. In order to show the impact of mandatory price reductions of reimbursed medications on net sales transparently, organic sales growth is also disclosed without the effect of price reductions. This price reductions effect is calculated for mandatory price reductions of reimbursed medications of the specialities list based on volumes of previous period.

Organic sales growth first half of 2019

in thousand CHF	Retail	Services
Net sales	726,105	1,192,369
Change to previous period	4.3%	1.3%
Effect of expansion[1]	35,323	–
In % of net sales of previous period	5.1%	–
Net sales excluding effect of expansion	**690,782**	**1,192,369**
Organic sales growth	**(0.7%)**	**1.3%**
Mandatory price reductions of reimbursed medications of the specialities list[2]	13,356	30,067
In % of net sales of previous period	1.9%	2.6%
Net sales excluding effect of expansion and mandatory price reductions	**704,138**	**1,222,436**
Organic sales growth excluding price reductions	**1.2%**	**3.9%**

[1] Difference of net sales to previous period of points of sale without a full year period comparison
[2] Mandatory price reductions of reimbursed medications of the specialities list, calculated based on volumes of previous period

Organic sales growth first half of 2018

in thousand CHF	Retail	Services
Net sales	695,849	1,177,118
Change to previous period	2.6%	0.9%
Effect of expansion[1]	9,088	–
In % of net sales of previous period	1.3%	–
Net sales excluding effect of expansion	**686,761**	**1,177,118**
Organic sales growth	**1.3%**	**0.9%**
Mandatory price reductions of reimbursed medications of the specialities list[2]	7,693	22,064
In % of net sales of previous period	1.2%	1.9%
Net sales excluding effect of expansion and mandatory price reductions	**694,454**	**1,199,182**
Organic sales growth excluding price reductions	**2.5%**	**2.8%**

[1] Difference of net sales to previous period of points of sale without a full year period comparison
[2] Mandatory price reductions of reimbursed medications of the specialities list, calculated based on volumes of previous period

Adjusted consolidated statement of income

Galenica's consolidated statement of income adjusted by IAS 19 effects related to employee benefits (defined benefit plans and long-service awards) and IFRS 16 lease effects allowing financial results to be assessed on a comparable basis.

Adjusted consolidated statement of income first half of 2019

		Adjustments		
in thousand CHF	As reported	IAS 19	IFRS 16	Adjusted
Net sales	**1,600,422**	**–**	**–**	**1,600,422**
Health & Beauty[1]	781,393	–	–	781,393
Services[1]	1,192,369	–	–	1,192,369
Other income	8,125	–	–	8,125
Operating income	**1,608,547**	**–**	**–**	**1,608,547**
Cost of goods	(1,189,316)	–	–	(1,189,316)
Personnel costs	(227,183)	(286)	–	(227,469)
Other operating costs	(69,433)	–	(24,637)	(94,070)
Share of profit from associates and joint ventures	4,073	(12)	19	4,080
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**126,688**	**(298)**	**(24,618)**	**101,772**
Health & Beauty[1]	94,211	–	(23,516)	70,695
Services[1]	34,082	–	(1,102)	32,980
Depreciation and amortisation	(43,889)	–	23,229	(20,660)
Earnings before interest and taxes (EBIT)	**82,799**	**(298)**	**(1,389)**	**81,112**
Return on sales (ROS)[2]	5.2%	–	(0.1%)	5.1%
Health & Beauty[1]	61,575	–	(1,313)	60,262
Return on sales (ROS)[2]	7.9%	–	(0.2%)	7.7%
Services[1]	22,698	–	(75)	22,623
Return on sales (ROS)[2]	1.9%	–	–	1.9%
Net financial expenses	(2,736)	224	1,248	(1,264)
Earnings before taxes (EBT)	**80,063**	**(74)**	**(141)**	**79,848**
Income taxes	(15,136)	158	110	(14,868)
Net profit	**64,927**	**84**	**(31)**	**64,980**

[1] Reported for each Segment not taking into account Corporate and Eliminations
[2] Return on sales (ROS) is calculated as EBIT divided by net sales

		Adjustments		
in CHF	As reported	IAS 19	IFRS 16	Adjusted
Earnings per share	1.32	–	–	1.32
Diluted earnings per share	1.32	–	–	1.32

Adjusted consolidated statement of income first half of 2018

in thousand CHF	As reported	Adjustments IAS 19	Adjusted
Net sales	**1,566,133**	**–**	**1,566,133**
Health & Beauty[1]	745,665	–	745,665
Services[1]	1,177,118	–	1,177,118
Other income	7,404	–	7,404
Operating income	**1,573,537**	**–**	**1,573,537**
Cost of goods	(1,178,227)	–	(1,178,227)
Personnel costs	(217,117)	4,667	(212,450)
Other operating costs	(91,198)	–	(91,198)
Share of profit from associates and joint ventures	2,411	112	2,523
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**89,406**	**4,779**	**94,185**
Health & Beauty[1]	63,362	–	63,362
Services[1]	32,758	–	32,758
Depreciation and amortisation	(19,303)	–	(19,303)
Earnings before interest and taxes (EBIT)	**70,103**	**4,779**	**74,882**
Return on sales (ROS)[2]	4.5%	(0.3%)	4.8%
Health & Beauty[1]	54,270	–	54,270
Return on sales (ROS)[2]	7.3%	–	7.3%
Services[1]	22,345	–	22,345
Return on sales (ROS)[2]	1.9%	–	1.9%
Net financial expenses	(1,259)	124	(1,135)
Earnings before taxes (EBT)	**68,844**	**4,903**	**73,747**
Income taxes	(12,366)	(1,006)	(13,372)
Net profit	**56,478**	**3,897**	**60,375**

[1] Reported for each Segment not taking into account Corporate and Eliminations
[2] Return on sales (ROS) is calculated as EBIT divided by net sales

in CHF	As reported	Adjustments IAS 19	Adjusted
Earnings per share	1.15	0.08	1.23
Diluted earnings per share	1.15	0.08	1.23

Free cash flow

The free cash flow shows Galenica's capacity to pay dividends and repay debt and equity. It provides information on the remaining cash and cash equivalents from the operating cash flow, reduced by all lease payments and after consideration of investment activities.

Free cash flow

in thousand CHF	1.1.-30.6.2019	1.1.-30.6.2018
Cash flow from operating activities before working capital changes	116,016	87,004
Payment of lease liabilities	(23,404)	–
Cash flow from operating activities before working capital changes adjusted	**92,612**	**87,004**
Working capital changes	(41,151)	(5,425)
Cash flow from operating activities adjusted	**51,461**	**81,579**
Cash flow from investing activities without M&A[1)]	(24,640)	(21,389)
Free cash flow before M&A	**26,821**	**60,190**
Cash flow from M&A[2)]	(54,616)	(21,025)
Free cash flow	**(27,795)**	**39,165**

1) Cash flow from investing activites without purchase and sale of subsidiaries (net cash flow)
2) Cash flow from purchase and sale of subsidiaries (net cash flow)

Cash conversion

	1.1.-30.6.2019	1.1.-30.6.2018
Cash conversion[1)]	75.7%	77.3%

1) Calculated as EBITDA adjusted less CAPEX (investments in property, plant and equipment and intangible assets) divided by EBITDA adjusted

Capital management

The capital of Galenica is managed and monitored at Group level. The objective of capital management at Galenica is to ensure the continuity of operations, increase enterprise value on a sustainable basis, provide an adequate return to investors, provide the financial resources to enable investments in areas that deliver future benefits for patients and customers and further returns to investors.

Galenica defines the capital that it manages as invested interest-bearing liabilities and equity. Galenica uses a system of financial control based on various key performance indicators. Capital is monitored based on the gearing, for example, which expresses net debt as a percentage of shareholders' equity including non-controlling interests and is communicated regularly to management as part of internal reporting. The debt coverage expresses net debt as a multiple of earnings before interest, taxes, depreciation and amortisation (EBITDA). Debt coverage ratio provide information about the creditworthiness of the Group. Galenica has no covenants requiring a minimum level of debt coverage.

Total assets and shareholders' equity are adjusted for the cumulative effects of the IAS 19 and IFRS 16 adjustments and net debt is adjusted for lease liabilities.

Total assets

in thousand CHF	30.6.2019	30.6.2018
Total assets	**2,221,350**	**1,826,096**
Cumulative effects of IAS 19 adjustments	(9,959)	(6,316)
Cumulative effects of IFRS 16 adjustments	(239,078)	–
Total assets adjusted	**1,972,313**	**1,819,780**

Net debt

in thousand CHF	30.6.2019	30.6.2018
Current financial liabilities[1]	92,965	39,733
Current lease liabilities	42,867	–
Non-current financial liabilities[1]	380,855	381,164
Non-current lease liabilities	202,547	–
Cash and cash equivalents	(55,175)	(67,802)
Interest-bearing receivables	(2,132)	(2,379)
Net debt	**661,927**	**350,716**
Lease liabilities (current and non-current)	(245,414)	–
Net debt adjusted	**416,513**	**350,716**

[1] Excluding non-interest-bearing financial liabilities

Shareholders' equity

in thousand CHF	30.6.2019	30.6.2018
Shareholders' equity	**917,803**	**836,929**
Cumulative effects of IAS 19 adjustments	58,964	30,553
Cumulative effects of IFRS 16 adjustments	4,832	–
Shareholders' equity adjusted	**981,599**	**867,482**

Alternative performance measures of the Galenica Group

Equity ratio

	30.6.2019	30.6.2018
Equity ratio[1]	41.3%	45.8%
Equity ratio adjusted[2]	49.8%	47.7%

[1] Calculated as shareholders' equity divided by total assets
[2] Calculated as shareholders' equity adjusted divided by total assets adjusted

Gearing

	30.6.2019	30.6.2018
Gearing[1]	72.1%	41.9%
Gearing adjusted[2]	42.4%	40.4%

[1] Calculated as net debt divided by shareholders' equity
[2] Calculated as net debt adjusted divided by shareholders' equity adjusted

Debt coverage

	30.6.2019	30.6.2018
Debt coverage[1]	2.6x	2.0x
Debt coverage adjusted[2]	2.0x	1.9x

[1] Calculated as net debt divided by two times EBITDA of the first half year
[2] Calculated as net debt adjusted divided by two times EBITDA adjusted of the first half year

Consolidated interim financial statements 2019

Consolidated statement of income

in thousand CHF	1.1.–30.6.2019	1.1.–30.6.2018
Net sales	1,600,422	1,566,133
Other income	8,125	7,404
Operating income	**1,608,547**	**1,573,537**
Cost of goods	(1,189,316)	(1,178,227)
Personnel costs	(227,183)	(217,117)
Other operating costs	(69,433)	(91,198)
Share of profit from associates and joint ventures	4,073	2,411
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**126,688**	**89,406**
Depreciation and amortisation	(43,889)	(19,303)
Earnings before interest and taxes (EBIT)	**82,799**	**70,103**
Financial income	402	399
Financial expenses	(3,138)	(1,658)
Earnings before taxes (EBT)	**80,063**	**68,844**
Income taxes	(15,136)	(12,366)
Net profit	**64,927**	**56,478**
Attributable to:		
– Shareholders of Galenica Ltd.	64,813	56,424
– Non-controlling interests	114	54

in CHF		
Earnings per share	1.32	1.15
Diluted earnings per share	1.31	1.15

Unaudited figures

Consolidated statement of comprehensive income

in thousand CHF	1.1.–30.6.2019	1.1.–30.6.2018
Net profit	**64,927**	**56,478**
Translation differences	1	–
Items that may be reclassified subsequently to profit or loss	**1**	**–**
Remeasurements of net defined benefit liability	4,724	(2,218)
Income taxes from remeasurement of net defined benefit liability	(1,489)	466
Share of other comprehensive income from joint ventures	(183)	(674)
Items that will not be reclassified to profit or loss	**3,052**	**(2,426)**
Other comprehensive income	**3,053**	**(2,426)**
Comprehensive income	**67,980**	**54,052**
Attributable to:		
– Shareholders of Galenica Ltd.	67,866	53,998
– Non-controlling interests	114	54

Unaudited figures

Consolidated statement of financial position

Assets

in thousand CHF		30.6.2019		31.12.2018
Cash and cash equivalents		55,175		104,970
Trade and other receivables		458,663		371,648
Inventories		281,359		276,628
Prepaid expenses and accrued income		30,130		28,290
Current assets	37 %	**825,327**	42 %	**781,536**
Property, plant and equipment		274,010		244,990
Right-of-use assets		239,601		–
Intangible assets		824,794		767,910
Investments in associates and joint ventures		19,786		27,281
Financial assets		16,497		13,908
Deferred tax assets		18,477		24,463
Employee benefit assets		2,858		–
Non-current assets	63 %	**1,396,023**	58 %	**1,078,552**
Assets	100 %	**2,221,350**	100 %	**1,860,088**

Liabilities and shareholders’ equity

in thousand CHF		30.6.2019		31.12.2018
Financial liabilities		121,519		29,674
Lease liabilities		42,867		–
Trade and other payables		291,427		298,167
Tax payables		12,028		14,199
Accrued expenses and deferred income		142,082		97,880
Provisions		4,186		2,657
Current liabilities	28 %	**614,109**	24 %	**442,577**
Financial liabilities		380,925		380,910
Lease liabilities		202,547		–
Deferred tax liabilities		34,006		25,579
Employee benefit liabilities		68,922		73,707
Provisions		3,038		3,716
Non-current liabilities	31 %	**689,438**	26 %	**483,912**
Liabilities	59 %	**1,303,547**	50 %	**926,489**
Share capital		5,000		5,000
Reserves		906,107		924,463
Equity attributable to shareholders of Galenica Ltd.		**911,107**		**929,463**
Non-controlling interests		6,696		4,136
Shareholders’ equity	41 %	**917,803**	50 %	**933,599**
Liabilities and shareholders’ equity	100 %	**2,221,350**	100 %	**1,860,088**

2019 figures are unaudited

Consolidated statement of cash flows

in thousand CHF	1.1.–30.6.2019	1.1.–30.6.2018
Net profit	64,927	56,478
Income taxes	15,136	12,366
Depreciation and amortisation	43,889	19,303
(Gain)/loss on disposal of non-current assets	(135)	(117)
Increase/(decrease) in provisions and employee benefit liabilities	799	3,552
Net financial result	2,736	1,259
Share of profit from associates and joint ventures	(4,073)	(2,411)
Other non-cash items	2,059	2,251
Interest received	394	279
Interest paid	(2,074)	(650)
Other financial receipts/(payments)	(53)	(270)
Dividends received	4,165	3,381
Income taxes paid	(11,754)	(8,417)
Cash flow from operating activities before working capital changes	**116,016**	**87,004**
Change in trade and other receivables	(72,826)	(41,950)
Change in inventories	4,617	14,711
Change in trade and other payables	(12,833)	16,524
Change in other net current assets	39,891	5,290
Working capital changes	**(41,151)**	**(5,425)**
Cash flow from operating activities	**74,865**	**81,579**
Investments in property, plant and equipment	(13,099)	(10,787)
Investments in intangible assets	(11,144)	(8,128)
Investments in associates and joint ventures	–	(1,005)
Investments in financial assets	(3,620)	(7,670)
Proceeds from property, plant and equipment and intangible assets	232	285
Proceeds from financial assets	2,991	5,916
Purchase of subsidiaries (net cash flow)	(54,616)	(21,025)
Cash flow from investing activities	**(79,256)**	**(42,414)**
Dividends paid	(83,826)	(81,145)
Purchase of treasury shares	(55)	(176)
Proceeds from sale of treasury shares	46	25
Proceeds from financial liabilities	94,735	17,724
Repayment of financial liabilities	(32,900)	(4,061)
Payment of lease liabilities	(23,404)	–
Purchase of non-controlling interests	–	(17)
Cash flow from financing activities	**(45,404)**	**(67,650)**
Increase/(decrease) in cash and cash equivalents	**(49,795)**	**(28,485)**
Cash and cash equivalents as at 1 January	104,970	96,287
Cash and cash equivalents as at 30 June	**55,175**	**67,802**

Unaudited figures

Consolidated statement of changes in equity

in thousand CHF	Share capital	Treasury shares	Retained earnings	Equity attributable to shareholders of Galenica Ltd.	Non-controlling interests	Equity
Balance as at 1 January 2018	**5,000**	**(38,720)**	**890,269**	**856,549**	**4,232**	**860,781**
Net profit			56,424	56,424	54	56,478
Other comprehensive income			(2,426)	(2,426)		(2,426)
Comprehensive income			**53,998**	**53,998**	**54**	**54,052**
Dividends			(81,029)	(81,029)	(116)	(81,145)
Transactions on treasury shares		3,836	(2,838)	998		998
Share-based payments			2,260	2,260		2,260
Change in non-controlling interests			11	11	(28)	(17)
Balance as at 30 June 2018	**5,000**	**(34,884)**	**862,671**	**832,787**	**4,142**	**836,929**
Balance as at 31 December 2018	**5,000**	**(32,199)**	**956,662**	**929,463**	**4,136**	**933,599**
Change in accounting standards[1]			(4,852)	(4,852)	(11)	(4,863)
Balance as at 1 January 2019	**5,000**	**(32,199)**	**951,810**	**924,611**	**4,125**	**928,736**
Net profit			64,813	64,813	114	64,927
Other comprehensive income			3,053	3,053		3,053
Comprehensive income			**67,866**	**67,866**	**114**	**67,980**
Dividends			(83,758)	(83,758)	(68)	(83,826)
Transactions on treasury shares		3,613	(3,296)	317		317
Share-based payments			2,071	2,071		2,071
Change in non-controlling interests					2,525	2,525
Balance as at 30 June 2019	**5,000**	**(28,586)**	**934,693**	**911,107**	**6,696**	**917,803**

[1] Adjustment upon adoption of IFRS 16 (refer to note 2 and note 6)

Unaudited figures

On 2 May 2019 the Annual General Meeting approved a dividend payment to be made from capital contribution reserves of CHF 83.8 million, corresponding to CHF 1.70 per registered share, for the financial year 2018 (previous year: CHF 81.0 million). The dividend was paid out to the shareholders on 8 May 2019.

Notes to the consolidated interim financial statements of the Galenica Group

1. Group organisation

General information

Galenica is a fully-integrated healthcare provider in Switzerland. Galenica operates a network of pharmacies, develops and offers own brands and products, exclusive brands and products from business partners as well as a variety of on-site health services and tests for customers. Galenica is also a provider of pre-wholesale and wholesale distribution and database services in the Swiss healthcare market.

The parent company is Galenica Ltd., a Swiss company limited by shares with its head office in Bern. The registered office is at Untermattweg 8, 3027 Bern, Switzerland. Shares in Galenica Ltd. are traded on the SIX Swiss Exchange under securities no. 36067446 (ISIN CH0360674466).

The Board of Directors released the consolidated interim financial statements 2019 on 5 August 2019 for publication.

2. Accounting principles

Basis of preparation

The unaudited consolidated interim financial statements of Galenica are based on the financial statements of the individual companies of Galenica as at 30 June 2019, prepared in accordance with uniform principles. Except for the amendments to International Financial Reporting Standards (IFRS) as detailed below, the consolidated interim financial statements have been prepared using the same accounting principles as the consolidated financial statements for the year ending 31 December 2018 and comply with IAS 34 – Interim Financial Reporting. The consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ending 31 December 2018 as they update previously reported information.

Galenica's consolidated interim financial statements are prepared in Swiss francs (CHF) and, unless otherwise indicated, figures are rounded to the nearest CHF 1,000.

Foreign currencies are not of relevance for the consolidated interim financial statements.

Estimation uncertainty and assumptions

The preparation of the Group's consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and the disclosure of contingent liabilities as at the reporting date. Although these estimates and assumptions are made on the basis of all available information and with the greatest of care, the actual results may differ. Any adjustments resulting from changes in estimates and assumptions are made during the reporting period in which the original estimates and assumptions changed.

Seasonal influences on operations

Sales in the business sectors in which Galenica operates are not significantly influenced by seasonal or cyclical fluctuations during the financial year.

Income taxes

Current income taxes are based on an estimate of the expected income tax rate for the full year.
The Swiss Tax Reform (accepted on 19 May 2019) has had no material impact on income taxes reported in the consolidated statement of income as there are offsetting effects from deferred tax assets and liabilities in cantons where the tax rate changes are substantively enacted at 30 June 2019.

Amendments to IFRS

As at 1 January 2019 Galenica adopted the following new International Financial Reporting Standards relevant for the Group.
– IFRS 16 – Leases

IFRS 16 replaces IAS 17 and sets out the principles for recognition, measurement, presentation and disclosure of leases. The new standard requires that right-of-use assets and lease liabilities for most lease contracts are recognised in the consolidated statement of financial position.

Galenica applied the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method and will not restate comparative figures for the year prior to first adoption. The impacts of the adoption are the recognition of right-of-use assets of CHF 239.1 million and lease liabilities of CHF 245.1 million.

Galenica elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. Galenica also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). Furthermore, Galenica adjusted the right-of-use assets by the amount of any provisions for onerous lease contracts in the balance sheet immediately before the date of initial application. Lease liabilities were discounted using a weighted average incremental borrowing rate of 1.03% at the date of initial application.

Further information concerning IFRS 16 is disclosed in note 6.

Other IFRS changes had no impact for Galenica. Galenica has not early adopted any other standard or interpretation that has been issued but is not yet effective.

Scope of consolidation

The consolidated interim financial statements of Galenica comprise those of Galenica Ltd. and all its subsidiaries, including associate companies and joint ventures.

Subsidiaries, associates and joint ventures acquired during the reporting period are included in the interim financial statements as at the date when control, significant influence or joint control was obtained. Companies sold during the reporting period are included up to the date when control, significant influence or joint control was lost.

Details of changes in the scope of consolidation in the reporting period are included in note 4.

3. Operating segment information

Operating segment information first half of 2019

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	781,393	1,192,369	9,136	(382,476)	1,600,422
Intersegmental net sales	(43,978)	(330,007)	(8,491)	382,476	0
Net sales to third parties	**737,415**	**862,362**	**645**	**–**	**1,600,422**
Other income	3,810	4,623	316	(624)	8,125
Share of profit from associates and joint ventures	4,261	–	–	(188)	4,073
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**94,211**	**34,082**	**(186)**	**(1,419)[1]**	**126,688**
Depreciation and amortisation	(32,636)	(11,384)	(33)	164	(43,889)
Earnings before interest and taxes (EBIT)	**61,575**	**22,698**	**(219)**	**(1,255)[1]**	**82,799**
Interest income					402
Interest expense					(2,923)
Other net financial result					(215)
Earnings before taxes (EBT)					**80,063**
Income taxes					(15,136)
Net profit					**64,927**
Assets	**1,509,303**	**881,394**	**964,760**	**(1,134,107)[2]**	**2,221,350**
Investments in associates and joint ventures	23,122	–	–	(3,336)	19,786
Liabilities	**1,184,934**	**602,345**	**579,891**	**(1,063,623)[3]**	**1,303,547**
Investments in property, plant and equipment	7,205	7,085	–	(123)	14,167
Investments in intangible assets	1,400	9,182	–	(5)	10,577
Employees as at 30 June (FTE)	3,875	1,415	34	–	5,324

[1] Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF 0.3 million
[2] Of which elimination of intercompany positions of CHF –1,130.1 million and other unallocated amounts of CHF –4.0 million
[3] Of which elimination of intercompany positions of CHF –1,130.1 million and other unallocated amounts of CHF 66.5 million

The Board of Directors of Galenica Ltd. acting as chief operating decision maker (CODM) allocates resources and monitors performance of the Group's operating segments Health & Beauty and Services on the basis of information prepared in accordance with IFRS with exception of defined benefit plans and long-service awards, which are recognised at Group level.

In the Health & Beauty segment with its large network of pharmacies the accounting for leases is of particular importance. The Group continues to prepare information as if its leases were accounted for as operating leases (e.g. in line with Galenica's accounting policies prior to the adoption of IFRS 16). Those figures are relevant for management incentive and remuneration plans. However, Galenica has determined that the figures including the effects of IFRS 16 are used by the CODM for monitoring and resource allocation decisions and therefore presents its segment reporting as above.

Operating segment information first half of 2018

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	745,665	1,177,118	8,684	(365,334)	1,566,133
Intersegmental net sales	(38,505)	(318,790)	(8,039)	365,334	–
Net sales to third parties	**707,160**	**858,328**	**645**	**–**	**1,566,133**
Other income	2,681	4,308	676	(261)	7,404
Share of profit from associates and joint ventures	2,524	–	–	(113)	2,411
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**63,362**	**32,758**	**(121)**	**(6,593)[2]**	**89,406**
Depreciation and amortisation	(9,092)	(10,413)	(17)	219	(19,303)
Earnings before interest and taxes (EBIT)	**54,270**	**22,345**	**(138)**	**(6,374)[2]**	**70,103**
Interest income					394
Interest expense					(1,369)
Other net financial result					(284)
Earnings before taxes (EBT)					**68,844**
Income taxes					(12,366)
Net profit					**56,478**
Assets[1]	**1,143,809**	**770,628**	**933,519**	**(987,868)[3]**	**1,860,088**
Investments in associates and joint ventures[1]	30,247	–	–	(2,966)	27,281
Liabilities[1]	**852,299**	**475,802**	**514,294**	**(915,906)[4]**	**926,489**
Investments in property, plant and equipment	5,211	7,720	–	(97)	12,834
Investments in intangible assets	167	8,409	6	(27)	8,555
Employees as at 30 June (FTE)	3,492	1,365	34		4,891

[1] Figures as at 31 December 2018
[2] Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF –4.8 million
[3] Of which elimination of intercompany positions of CHF –987.2 million and other unallocated amounts of CHF –0.7 million
[4] Of which elimination of intercompany positions of CHF –987.2 million and other unallocated amounts of CHF 71.3 million

4. Business combinations

In the first half of 2019, the scope of consolidation has changed as a result of the following transactions:

Acquisition of pharmacies. Galenicare Holding acquired 100% of the interests in pharmacies in various locations in Switzerland. Upon acquisition, all of these pharmacies were merged with Galenicare Ltd.

The purchase consideration amounted to CHF 27.9 million, of which CHF 21.0 million was settled in cash. The deferred purchase price consideration of CHF 6.9 million falls due in the second half of 2019. The fair value of the provisional net assets amounts to CHF 11.9 million at the acquisition date. The goodwill of CHF 16.0 million was allocated to the Retail business sector and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

Acquisition of Bichsel Interlaken Holding AG. On 1 May 2019, Galenica acquired 95% of the shares in the Swiss company Bichsel Interlaken Holding AG. Bichsel Interlaken Holding AG is the parent company of the Bichsel Group with its two operating companies Grosse Apotheke Dr. G. Bichsel AG, where Galenica held already 25% of the shares and Laboratorium Dr. G. Bichsel AG. The Bichsel Group is specialised in manufacturing individual medicines and medical devices, offering home care services in the field of home dialysis and clinical home nutrition throughout Switzerland and operates a public pharmacy situated in a prime location. The remaining 5% of the shares were retained by the Bichsel family.

The provisional purchase consideration amounted to CHF 72.3 million, of which CHF 65.1 million was settled in cash. The deferred purchase price consideration of CHF 7.2 million falls due in the second half of 2019. The provisional fair value of the net identifiable assets amounted to CHF 50.5 million at the acquisition date. The provisional goodwill of CHF 31.1 million was allocated to the Retail business sector and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition in strengthening the leading position in the market of home care for patients, broadening the access to hospitals and healthcare providers and the know-how of the employees gained. As the acquisition date was recent, the purchase price allocation is yet to be finalised. Transaction costs of CHF 0.3 million were recognised in other operating costs.

Business combinations

in thousand CHF	Bichsel Group	Pharmacies	Fair value Total
Cash and cash equivalents	25,277	7,562	32,839
Trade receivables	10,155	3,519	13,674
Inventories	6,810	2,539	9,349
Property, plant and equipment	30,668	2,161	32,829
Right-of-use assets	5,875	6,935	12,810
Intangible assets	2,170	16	2,186
Other current and non-current assets	5,493	733	6,226
Trade payables	(3,650)	(993)	(4,643)
Financial liabilities	(14,940)	(2,381)	(17,321)
Lease liabilities	(5,875)	(6,935)	(12,810)
Deferred tax liabilities	(8,329)	–	(8,329)
Other current and non-current liabilities	(3,161)	(1,301)	(4,462)
Fair value of net assets	**50,493**	**11,855**	**62,348**
Goodwill	31,063	16,037	47,100
Non-controlling interests	(2,525)	–	(2,525)
Fair value of previously held interests	(6,737)	–	(6,737)
Purchase consideration	**72,294**	**27,892**	**100,186**
Cash acquired	(25,277)	(7,562)	(32,839)
Deferred consideration	(7,219)	(6,948)	(14,167)
Net cash flow from current business combinations	**39,798**	**13,382**	**53,180**
Payment of consideration due to previous business combinations			1,436
Net cash flow from business combinations			**54,616**

Pro forma figures for acquisitions made in the first half of 2019

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 16.3 million and an operating result (EBIT) of CHF 0.6 million to the Group's results. If these acquisitions had occurred on 1 January 2019, they would have contributed additional net sales of CHF 28.3 million and increased EBIT by CHF 1.8 million.

5. Net sales

Galenica separates revenue recognised from contracts with customers into the business sectors.

Net sales first half of 2019

in thousand CHF	Product & Brands	Health & Beauty Retail	Services	Corporate	Eliminations	Group
Sale of goods	53,267	695,906	1,142,064	–	(358,992)	1,532,245
Sale of services	792	30,199	50,305	9,136	(22,255)	68,177
Net sales	**54,059**	**726,105**	**1,192,369**	**9,136**	**(381,247)**	**1,600,422**
Intersegmental net sales	(28,868)	(13,881)	(330,007)	(8,491)	381,247	–
Net sales to third parties	**25,191**	**712,224**	**862,362**	**645**	**–**	**1,600,422**
– of which sale of goods to third parties	24,399	682,505	825,341	–	–	1,532,245
– of which sale of services to third parties	792	29,719	37,021	645	–	68,177

Net sales first half of 2018

in thousand CHF	Product & Brands	Health & Beauty Retail	Services	Corporate	Eliminations	Group
Sale of goods	47,816	668,113	1,129,999	–	(343,840)	1,502,088
Sale of services	837	27,736	47,119	8,684	(20,331)	64,045
Net sales	**48,653**	**695,849**	**1,177,118**	**8,684**	**(364,171)**	**1,566,133**
Intersegmental net sales	(24,351)	(12,991)	(318,790)	(8,039)	364,171	–
Net sales to third parties	**24,302**	**682,858**	**858,328**	**645**	**–**	**1,566,133**
– of which sale of goods to third parties	23,465	655,533	823,090	–	–	1,502,088
– of which sale of services to third parties	837	27,325	35,238	645	–	64,045

6. Leases

Accounting principles

A lease is a contract in which the right to use an asset (the underlying asset) is granted for an agreed-upon period in return for consideration. Galenica entered into a large number of lease contracts which include fixed rental fees and variable sales-based components. Galenica has lease contracts for real estate only. The majority of these lease contracts concerns locations of the pharmacies in the Retail business sector.

Galenica determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain at inception of the contract to be exercised. Galenica has the option, under some of its leases, to lease the assets for additional terms of several (three, five ore more) years. Galenica applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. In doing so, Galenica considers all relevant factors including economic incentives. Galenica reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise, or not to exercise, the option to renew (e.g. a change in business strategy).

At the commencement date right-of-use assets are capitalised at a value equivalent to the lease liability, plus initial direct costs and lease payments made before the commencement date, less any lease incentives received.

The lease liability represents the net present value of fixed or in substance fixed lease payments over the lease term. Lease liabilities are discounted using an incremental borrowing rate. Non-lease components are not included in the lease liabilities and are accounted for in accordance with applicable standards. The interest charge is presented as interest expenses on lease liability

Right-of-use assets are depreciated over the shorter of the useful life of the right-of-use asset or the lease term.

Right-of-use assets are tested for impairment whenever there are indications that they could be impaired. Any impairment is recognised in profit or loss under depreciation and amortisation and disclosed separately as an impairment. Reversal of impairments on right-of-use assets are recognised immediately in profit or loss.

Reconciliation operating lease commitments to lease liabilities

The lease liabilities recognised as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

in thousand CHF

Operating lease commitments disclosed as at 31 December 2018[1)]	**195,040**
Commitments related to short-term leases	(1,589)
Extension options considered to be reasonably certain to be exercised	63,528
Leases not yet commenced to which Galenica is committed as at 31 December 2018	(2,418)
Other	(783)
Gross lease liabilities as at 1 January 2019	**253,778**
Effect of discounting	(8,671)
Net lease liabilities recognised as at 1 January 2019	**245,107**

[1)] As reported in consolidated financial statements 2018, note 29

Adjusted consolidated statement of financial position as at 1 January 2019

The following table shows the changes in presentation or valuation of the financial positions as at 1 January 2019 after adopting IFRS 16. The comparative figures presented during 2018 have not been restated as Galenica is applying the modified retrospective approach permitted by IFRS.

Assets

in thousand CHF	31.12.2018	Adoption IFRS 16	1.1.2019
Cash and cash equivalents	104,970	–	104,970
Trade and other receivables	371,648	–	371,648
Inventories	276,628	–	276,628
Prepaid expenses and accrued income	28,290	(21)	28,269
Current assets	**781,536**	**(21)**	**781,515**
Property, plant and equipment	244,990	–	244,990
Right-of-use assets	–	239,120	239,120
Intangible assets	767,910	–	767,910
Investments in associates and joint ventures	27,281	(483)	26,798
Financial assets	13,908	–	13,908
Deferred tax assets	24,463	966	25,429
Non-current assets	**1,078,552**	**239,603**	**1,318,155**
Assets	**1,860,088**	**239,582**	**2,099,670**

Liabilities and shareholders' equity

in thousand CHF	31.12.2018	Adoption IFRS 16	1.1.2019
Financial liabilities	29,674	–	29,674
Lease liabilities	–	45,741	45,741
Trade and other payables	298,167	–	298,167
Tax payables	14,199	–	14,199
Accrued expenses and deferred income	97,880	(160)	97,720
Provisions	2,657	(192)	2,465
Current liabilities	**442,577**	**45,389**	**487,966**
Financial liabilities	380,910	–	380,910
Lease liabilities	–	199,366	199,366
Deferred tax liabilities	25,579	(104)	25,475
Employee benefit liabilities	73,707	–	73,707
Provisions	3,716	(206)	3,510
Non-current liabilities	**483,912**	**199,056**	**682,968**
Liabilities	**926,489**	**244,445**	**1,170,934**
Share capital	5,000	–	5,000
Reserves	924,463	(4,852)	919,611
Equity attributable to shareholders of Galenica Ltd.	**929,463**	**(4,852)**	**924,611**
Non-controlling interests	4,136	(11)	4,125
Shareholders' equity	**933,599**	**(4,863)**	**928,736**
Liabilities and shareholders' equity	**1,860,088**	**239,582**	**2,099,670**

7. Financial assets and financial liabilities measured at fair value

Fair value

		30.6.2019		31.12.2018
in thousand CHF	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial liabilities	342	342	272	272
Bonds (fair value level 1)	380,583	393,340	380,638	381,620
Non-current financial liabilities	**380,925**	**393,682**	**380,910**	**381,892**

With the exception of non-current financial liabilities the carrying amounts of all financial instruments approximate their fair values.

8. Contingent liabilities and commitments

Galenica signed purchase agreements to acquire pharmacies and other business in the next few years. The purchase prices will be fixed at the time of transfer of ownership on the basis of net asset value and discounted cash flow. The unrecognised commitments are expected to involve payments of CHF 14.1 million at the most. The purchase rights have an estimated volume of CHF 14.6 million. These purchase rights or obligations fall due between 2019 and 2023.

9. Subsequent events

The following business combination occurred between 30 June 2019 and 5 August 2019, the date that the consolidated interim financial statements were released for publication.

Acquisition of a pharmacy. Galenicare Holding acquired 100% of the interests in a pharmacy in Switzerland. The net assets of this acquisition will be consolidated for financial year 2019 from the date control was obtained. The purchase consideration was CHF 5.8 million, the fair value of the provisional net assets resulting from this addition was estimated at CHF 2.1 million at the acquisition date. Since the transaction was concluded shortly before the consolidated interim financial statements were issued, it was not possible to disclose the additional information required by IFRS.

There were no further significant events after the reporting date.

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